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ZILLOW GROUP, INC. Q1 2015 EARNINGS – PREPARED REMARKS

RJ Jones, VP of Investor Relations:

Thank you. Good afternoon and welcome to Zillow Group's first quarter 2015 earnings conference call. Joining me today to talk about our results are Spencer Rascoff, chief executive officer, and Chad Cohen, 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 can't guarantee these results, and actual results may differ materially. We caution you to consider the risk factors in our SEC filings which could cause actual results to differ materially from those in the forward-looking statements made in the press release and on this call.

The date of this call is May 12th, 2015, 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 this call, we will discuss GAAP and non-GAAP measures. We will also discuss results on both a reported and pro forma basis. Reported results were prepared in accordance with GAAP. For comparative purposes, pro forma results assume the February 2015 acquisition of Trulia occurred on January 1, 2014, and reflect certain adjustments and exclusions described in our filings. We encourage you to read our press release as it contains information about our reported and pro forma 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, interest expense, and taxes.

This call is being broadcast on the Internet and is available on the Investor Relations section of the Zillow Group website. A recording will be available after 8:00pm Eastern time today. Please note that the earnings press release is available on our website and, after the call, a copy of today's remarks will also be available on our website.

Today we will open the call with prepared remarks, and then we will host a live question-and-answer session. During the Q&A, we will entertain questions asked via Twitter, in addition to questions from those dialed into the call. Individuals may submit questions by tweeting @ZillowGroup using the #ZEarnings. I will now turn the call over to Spencer.

Spencer Rascoff, CEO:

Thank you and welcome to our first quarter 2015 earnings call, and our first ever earnings call as Zillow Group.

It's been four weeks since our operational update call during which I discussed the progress we have made since closing the Trulia acquisition, and gave our full year pro forma expectations. At that time, we were still preparing our financial results for Zillow Group's first quarter, which we are reporting today. Our first quarter financial results on a pro forma basis show revenue of nearly $163 million and adjusted EBITDA of almost $25 million. We are right on track to reach our stated pro forma operating goals for full year 2015 of $690 million in revenue and $80 to $85 million in EBITDA.

While we have accomplished an enormous amount in the short time since the Trulia acquisition closed, we still have a lot of work ahead in this transition year. By the start of 2016, we will be very well positioned to capture an increasing amount of the $13 billion[1] real estate advertising opportunity, as dollars continue to shift to online and mobile media brands with the largest audience.

Today I will start with a brief discussion of our strategy, and then Chad will walk you through our first quarter financial results. We will then take questions on this call, and from Twitter with the hashtag, ZEarnings.

This year we are focusing Zillow Group on four priorities: First, extracting significant benefits from bringing Trulia into Zillow Group; Second, growing our combined consumer audience; Third, growing our agent advertising business; and Fourth, growing our emerging marketplaces. I will discuss each in more detail.

First, our top strategic priority for 2015 is successfully integrating Trulia and maximizing the potential of our increased scale. We have significant momentum, and are making great progress. As we discussed in our operational update call, the protracted FTC review process last year negatively impacted the Trulia agent advertising business by creating advertiser uncertainty, which drove lower agent additions and retention. We have already rectified the key issues which were impacting Trulia's agent ad business. Now with our rentals and mortgages integration complete, we are focused on combining the Zillow and Trulia agent advertising products, which will be done by the end of the year. Changes will include converting agent advertising inventory on Trulia from share of voice to an impression basis, and unifying all SKUs to be sold as combined mobile and web advertising.

As you know, we are conducting a strategic review of Market Leader's operations and evaluating its place within Zillow Group's overall strategy. While we continue to support the CRM product for agents and enterprise partners, we are not actively selling those products to new clients. We continue to expect Market Leader related revenue for full year 2015 to be approximately $40 million on a pro forma basis.

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[1] Borrell Associates' February 2015 publication of "2015 Outlook: Real Estate Advertising"

Moving now to our second strategic priority: growing our audience. As I have said many times before, in a media model, we believe that advertisers follow audience. Our four leading consumer brands represent by far, the largest audience in real estate, rentals and mortgages, both on mobile and web. And still an enormous opportunity remains to grow our collective footprint.

Everything in our strategy begins with creating products that empower consumers to make the smartest decisions when it comes to their homes. The most recent product innovations for both Zillow and Trulia brands were our Apple Watch™ apps. In these apps consumers can receive notifications about new properties that come on market, scroll through photos, see local info, and examine property data. Both apps seamlessly extend Zillow and Trulia home shopping from the iPhone® to the user's wrist. Other product innovations include the recently-launched "Ok Google" voice search functionality on both Zillow and Trulia, and the launch of Trulia's Boards, a highly engaging collaborative shopping feature.

Our efforts in product innovation, and amplification with impactful marketing and national advertising, drive our growth strategy and result in tremendous scale that benefits our advertisers. In 2015, Zillow Group is investing more than $100 million in advertising our consumer brands, or approximately 15% of revenue. Looking at traffic across our portfolio, nearly 140 million unique users visited Zillow Group brands on mobile and Web in March. Mobile continues to be strong across our brand portfolio – for example, nearly two-thirds of the Zillow brand's usage comes from mobile devices, and more than 70% on weekends. Our category leadership is even more pronounced on mobile where consumers tend to use fewer sites and apps.

This brings us to our third strategic priority of growing our real estate agent advertising businesses. As we have discussed, there is a ton of great work either recently completed or currently underway to enhance the Trulia agent business in the near term. As for Zillow Premier Agent, we continue to see significant growth in agent advertisers and revenue. Same agent sales remain robust, with over 50% ARPA growth for advertisers that were with us a year ago and the bulk of the gain coming from buying more impressions. Also more than 60% of bookings are to existing advertisers buying more impressions. We are looking forward to when our newly combined sales force will be able to sell one product to agent advertisers that will place them in ad units across Zillow Group brands.

We are now receiving direct listings feeds every few minutes from 235 MLSs, and more are joining daily – with 105 new MLSs joining in just the past six weeks. Our coverage of active for sale by agent listings is the strongest we've seen in our history, and continues to grow. These direct feeds improve our listings quality which contribute to our audience growth, and also provide us with more ad impressions. By receiving 100% of our listings directly rather than through third-party intermediaries, we provide the most accurate and timely listings to millions of consumers who visit Zillow Group brands each month.

Furthering our commitment to be the best industry partner to MLSs and brokerages who send their listings to Zillow Group, we recently announced the Zillow Group Data Connect program, which gives MLSs extensive public data on homes, with broad usage rights, free of charge. This is data that MLSs normally spend hundreds of thousands of dollars annually to buy or license with periodic updates. MLSs use this data to help their members create listings, research their market, speed up listing input and enhance prospecting and business development. This new source of dynamic data, combined with the software from our acquisition of Retsly last year, will give MLSs the freedom to innovate and build products and services for their members, help MLSs save a significant expense, and strengthen the bonds we are building with the industry for the long term.

Turning now to our fourth strategic priority of growing our emerging marketplaces, consisting of mortgages, New York City and rentals. Zillow Group Mortgages continues to advance rapidly, with excellent traffic growth, loan requests, contacts and revenue during the quarter. Growth in contacts year over year exceeded 60%, which is well ahead of industry trends. Most notably, during the quarter we successfully completed the integration and launch of our mortgages experience on Trulia desktop and mobile web. Now the millions of consumers visiting all Zillow Group brands can anonymously shop for custom loan quotes and access more than 130,000 reviews of mortgage lenders. For borrowers, connecting with reputable lenders is now easier than ever – in addition to providing borrowers with a comprehensive comparison shopping experience, we now also offer a way for consumers to be matched with local lenders through our newly launched Long Form product. The intuitive step-by-step Long Form offering evolved from our Pre-Approval product, and so far is showing great results for borrowers and our lender partners. The mortgages team continues to set the pace of innovation in its category, creating products that resonate with consumers and transforming the industry.

Now turning to StreetEasy, the leading New York real estate marketplace. During the quarter StreetEasy launched its first ever advertising campaign, "Live as You Please." The campaign cleverly addresses some of New York's nuanced real estate challenges with humorous headline-driven outdoor ads. Many of you may have noticed the ads throughout the City. Initial results from the campaign indicate traffic lifts across mobile and Web, as well as amplification through social media. All of our usage metrics at StreetEasy – from traffic to pageviews to leads – are growing at over 50% year-over-year, extending StreetEasy's already significant leadership position in New York.

Also during the quarter, StreetEasy launched Buildings Experts, a new advertising program that enables New York real estate agents to market their buying and selling expertise in a specific building. Home shoppers on StreetEasy can now view agents' successful deals in a building and contact them with one click. Up to three agents can be displayed on a StreetEasy building page as Building Experts. Based on the positive reception and traction we have experienced with the pilot program, we will be expanding the sale of the Building Experts ad product across StreetEasy over the course of the year. We continue to be very excited about StreetEasy's future.

Now turning to our final emerging marketplace, Zillow Group Rentals continues to gain momentum. When speaking with investors about our expected revenue ramp for rentals, I said that I expected to get to $10 million in annualized revenue faster than our mortgages marketplace ramped. As a reminder, it took Mortgages 4 years to get to $10M, and Mortgages is now around $40M annualized,. I'm pleased to say that we have significantly exceeded that revenue ramp goal, and at its current growth rate and its enormous TAM, rentals revenue is on pace to pass mortgages' total revenue within the next few years.

We also continue to grow our rental listings inventory. The Zillow Group Rental Network added more multifamily partners over the past year than ever before, increasing new partnerships 84 percent year-over-year in the quarter. Today nearly 90 percent of the National Multifamily Housing Council's 50 largest apartment managers are Zillow Group Rentals customers. To support the growth of our relationships, we have expanded our in-market sales team. The industry is embracing our performance-based model that drives high value one-to-one contacts, especially on mobile. Almost three quarters of the new contacts property managers received from us in March 2015 came through mobile. Although there is a lot of competitive bluster in the rentals space, we have not seen any impact on the growth of our rentals business due to competitor moves. All in, Zillow Group Rentals continues to advance and gain traction on every front.

Across our organization, the excitement for what's ahead of us is contagious and inspiring. Our teams are collaborating, and taking to heart our core value of "Move Fast, Think Big." We're 12 weeks post-closing, and I'm very pleased with what we've accomplished and the schedule ahead. As I look at our small share of the $13 billion market opportunity in residential real estate and rental advertising, I'm very excited about what we can accomplish.

Now I'll turn it over to Chad for a more copious exposition of our financial results.

Chad Cohen, CFO:

Thanks, Spencer.

Before I begin, I want to outline the format of our financial results discussion. First I will discuss Q1 2015 GAAP results and first quarter metrics, which incorporate the partial period where Trulia's results are included after February 17 to the end of the first quarter. Then for comparative purposes, I will discuss Q1 2015 pro forma results compared to Q1 2014 pro forma results. Our pro forma results assume the acquisition of Trulia occurred on January 1, 2014, and do not include acquisition and restructuring-related expenses, and reflect certain other adjustments discussed in our press release. And finally, I will close with an outlook for Q2 and pro forma full year 2015.

I realize the financials for this year are complicated and want to provide ample opportunity for questions today. With that said, let's dive into Zillow Group's first quarter financial results.

Traffic growth in the first quarter was excellent as we maintained strong momentum built upon new product releases and ongoing investments in growing our audience. In March 2015, we attracted nearly 140 million monthly unique users to Zillow Group's mobile applications and websites, which reflects traffic across all four of our consumer facing brands: Zillow, Trulia, HotPads and StreetEasy.

Moving to our financials and starting off with our GAAP operating results, total revenue for the first quarter was $127.3 million, reflecting the partial period where Trulia contributed to

Zillow Group's performance in the second half of the quarter. We continue to see the desired shift in our revenue mix as we ended the first quarter with 86% of our revenue coming from our Marketplace category, while 14% came from Display.

Looking at our core revenue driver, Marketplace Revenue was $108.9 million, which includes $6.1 million of Market Leader revenue, reflecting robust growth across our Real Estate and Mortgage revenue sub-categories.

Taking a deeper look at our Real Estate subcategory, which includes our Agent Advertising, Diverse Solutions, StreetEasy, and Rentals advertising revenue, our Real Estate revenue reached $93.3 million. Based on our internal March results, we currently derive an Agent Advertiser revenue run rate of $444 million for 2015. The inclusion of Trulia Agent Advertisers during the quarter contributed to the significant growth of total Agent Advertisers, bringing the total to over 103,000 by the end of the first quarter. This Agent Advertiser number represents the de-duplicated, combined advertiser count from both Zillow and Trulia, which does not include the roughly 27,500 Market Leader *only* advertisers. This advertiser count will serve as the foundation for Zillow Group's agent advertiser base going forward. The combination of increased impression inventory and de-duplicated Agent Advertiser count, of which we estimate there was approximately a 20% overlap between Zillow and Trulia advertisers, resulted in average revenue per advertiser, or ARPA, of $354 during the first quarter of 2015.

Transitioning to Zillow Mortgages, revenue reached $9.6 million, and 13 million loan requests were submitted during the first quarter, up 122% from the same period last year.

In our Display category, revenue was $18.3 million. This result remains aligned with our strategy of reducing our display placements to enhance the consumer experience across both Zillow and Trulia.

Shifting now from revenue and turning our attention to our operating costs, total operating expenses were $185.2 million during the first quarter of 2015, with the most significant increases coming from acquisition-related and restructuring costs, followed by headcount-related expenses which include share based compensation, and finally professional services fees.

Breaking out our operating expenses by line item, please note that in almost every case year-over-year increases in expenses are primarily related to the inclusion of Trulia expenses for a portion of the quarter:

Our cost of revenue during the quarter was $13.0 million or 10% of revenue, which was in-line with Q1 2014 levels on a percentage of revenue basis.

Next, Sales and Marketing expense was $59.3 million, or 47% of revenue, which was 6% lower as a percentage of revenue than the same period last year, but higher on an absolute dollar basis. In addition to the increased headcount-related expenses attributed to the Trulia acquisition, we continued to invest in marketing and advertising during the quarter.

Technology and Development costs in the first quarter were $37.3 million, or 29% of revenue, and 4% higher as a percentage of revenue than Q1 2014 levels. The increase was primarily due to headcount-related expenses and increased amortization of acquired intangible assets primarily related to the Trulia acquisition.

G&A costs in the first quarter were $38.0 million, or 30% of revenue, which was about 8% higher as a percentage of revenue than the same period last year. The majority of the increase was due to headcount-related expenses and includes $5.0 million of accelerated, double-trigger, share-based compensation for certain Trulia executives, followed by professional service fees which include legal and accounting costs.

Reported as separate expenses, we incurred $12.5 million in costs related to our acquisition and integration of Trulia and an additional $25.1 million related to restructuring costs including severance, related equity accelerations, and facilities contract termination costs.

Adjusted EBITDA for the quarter was $16.7 million, representing 13% of revenue, which was in-line with first quarter 2014 levels on a percentage of revenue basis.

The acquisition-related and restructuring charges of nearly $38 million impacted our bottom line, resulting in a GAAP net loss of $58.4 million in the first quarter. First quarter 2015 basic and diluted loss per share was $1.19, based on 49.1 million basic and diluted weighted average shares outstanding. On a non-GAAP basis, which excludes share based compensation and acquisition-related and restructuring costs, basic and diluted non-GAAP earnings per share was $0.04 and $0.05, respectively.

Zillow Group ended the first quarter of 2015 with more than 2,000 employees, up from approximately 1,200 for Zillow standalone at the end of 2014. Our headcount growth is expected to be tempered in 2015 as we focus on the Trulia integration.

During this time of transition, we want to emphasize the ongoing health and continued strength of our Zillow agent business as we see positive trends which are consistent with historical results. ARPA for Premier Agent advertisers who advertised with us in the same period last year was 54% higher year-over-year. As Spencer mentioned, this result is primarily driven by agent advertisers buying more impressions to expand their presence on our platform. Approximately 63% of our new sales bookings in the first quarter went to existing Premier

Agent advertisers buying more impressions across mobile and Web in their sales areas, continuing recent trends and signifying strong underlying demand.

For purposes of year-over-year comparability,I'm going to now discuss our first quarter results on a pro forma basis. Note that our summarized pro forma view comparisons have been included in our first quarter 2015 financial results press release, which includes important information about how the pro formas were prepared.

Total revenue for the first quarter increased 35% year-over-year to $162.5 million from $120.7 million in the same period last year. Pro forma revenue, excluding Market Leader, increased 41% year-over-year to $148.8 million from $105.5 million in the first quarter of 2014.

Looking at our core revenue driver, Marketplace Revenue was $136.9 million, which includes $13.6 million of Market Leader revenue, and grew 42% year-over-year. Excluding Market Leader, Marketplace Revenue would have grown 52% year-over-year.

Our Real Estate subcategory revenue reached $113.4 million in Q1 2015 and grew 54% year-over-year.

Moving to Zillow Mortgages, revenue reached $10.0 million, which represents a 33% increase year-over-year.

And in our Display category, revenue was $25.6 million, growing 5% over the same period last year.

Net loss was $17.9 million in the first quarter, compared to net loss of $23.8 million in the first quarter of 2014. First quarter 2015 basic and diluted loss per share was $0.31, based on 58.1 million basic and diluted weighted-average shares outstanding.

Adjusted EBITDA was $24.5 million, or 15% of revenue, and 5% higher as a percentage of revenue than Q1 2014.

Now turning to our Zillow Group Outlook for Q2 and Full Year 2015:

Second quarter 2015 revenue is expected to be in the range of $168 to $169 million. Excluding anticipated Market Leader revenue of approximately $11 million, the year-over-year growth rate of second quarter revenue is expected to be approximately 24%. Display revenue is expected to be in-line with our pro forma Q1 2015 results. Our EBITDA for the second quarter is expected to be in the range of $3.5 million to $4.5 million, due to a doubling of our adverting spend over Q1. As a reminder, the majority of our advertising spend has historically occurred during the second and third quarters of the year, and this year is no different. For Q2 2015, our basic weighted-average shares outstanding is expected to be approximately 58.5 to 59.5 million and our diluted weighted-average shares outstanding is expected to be in the range of 64.5 to 65.5 million.

We are reaffirming our full year pro forma 2015 revenue guidance of $690 million, which includes Market Leader revenue of $40 million. Our Market Leader outlook reflects a 35% decline in revenue from full year 2014 of $62 million. We reiterate our full year pro forma EBITDA guidance in the range of $80 to $85 million. Our pro forma, full year 2015 guidance reflects continued aggressive investments in brand building and in our living database of homes, as well as increased professional services that are non-structural in nature, and non-recurring increases to share-based compensation related to the Trulia acquisition.

For the full year, we expect pro forma share-based compensation, excluding acquisition-related and restructuring costs, to be approximately $90 million with a run rate of approximately $23 million per quarter. We expect full year, pro forma depreciation and amortization to be approximately $90 million.

To help you better model our full year outlook on a GAAP basis, we expect basic weighted-average shares to be approximately 56.5 to 57.5 million and our diluted weighted-average shares outstanding to be in the range of 62.5 to 63.5 million. Also in 2015, inclusive of the first quarter GAAP results, we expect acquisition-related expenses to be approximately $20 million and restructuring-related costs to be in the range of $31 to $33 million. The vast majority of these costs will be recognized in the first half of 2015.

To conclude, Zillow Group is off to a successful start. We are heads down in our integration efforts and are committed to finalizing all integration activity by the end of 2015, while accelerating our growth of audience and advancing our emerging home-related marketplaces. We remain on track to realize $100 million in cost synergies in 2016. I would be putting it mildly by saying that we are excited about our long term potential.

With that we'll open it up for questions from those dialed into the call, and to questions submitted via Twitter with the hashtag #ZEarnings.