



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

February 8, 2018

RJ Jones, VP of Investor Relations:

Thank you. Good afternoon, and welcome to Zillow Group's fourth quarter and full year 2017 financial results conference call. Joining me today to discuss 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, operations 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 8, 2018, 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 GAAP 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, a non-cash impairment charge, acquisition-related costs, interest expense and an income tax benefit.

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.

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. 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 from our San Francisco office, where almost 500 employees are focused on developing and managing products for our Premier Agent platform, as well as our Trulia, Zillow, HotPads and dotloop brands.

It was a fantastic year for Zillow Group. We achieved a major milestone by exceeding \$1 billion in revenue. Our GAAP net loss for the year was approximately \$94 million, including a non-cash impairment charge, which Kathleen will provide more details on in a bit. EBITDA for the year came in at just over \$236 million. At the start of 2017, we expected 23 percent year-over-year revenue growth and 19 percent EBITDA margin. By the end of the year, we delivered 27 percent revenue growth and 22 percent margin. Our gains in consumer audience and engagement drove revenue outperformance, which flowed through to profitability. Our business model is sustainable, flexible, and very profitable on the margin.

Each year on the February earnings call, I lay out for investors, employees and other stakeholders what our strategic priorities are for the upcoming year. For the past two years, our priorities have been: 1) grow our audience size and increase engagement, 2) continue growing our Premier Agent business, 3) grow our emerging marketplaces, and 4) attract and retain the best talent and maintain Zillow Group's unique company culture focused on innovation.

In 2017, our execution of these strategic priorities was solid. We surpassed 100 million unique users on our Zillow brand every month of the year; our Premier Agent, New Construction and Rentals marketplaces performed exceptionally well; and we further built and developed our team of talented employees.

It's been an exciting journey to get to where we are today. When we first launched Zillow.com in 2006, we brought to consumers a wealth of information about residential real estate that previously wasn't easy to find. People visited our website out of curiosity to see the Zestimate for their, or maybe their neighbor's, home. It was a bit voyeuristic and a lot of fun. Our brands still provide that fun, but over the years, we have evolved to become an essential resource for consumers during the home shopping process. Nearly 4 out of 5 buyers are shopping for their home online¹. Many of them expect more seamless services down the funnel toward the transaction and, naturally, we are at the forefront of this trend.

Looking ahead, as we evolve toward being a "deeper funnel" real estate industry partner, we are refreshing our strategic priorities for 2018, which now are:

- 1) Grow our audience size and increase engagement across all brands - including launching new brands and into new geographies.

¹ Zillow Group Consumer Housing Trends Report, 2017

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

To support these priorities in 2018, we will continue to invest in building the largest and most trusted home-related marketplace. Zillow Group is committed to connecting consumers with real estate professionals and delivering a faster, more efficient home shopping process, while providing those professionals with technology and services to better serve their clients, close more transactions and be more successful. With our new priorities, we are moving into the next phase of our evolution, in which we will take our business beyond lead generation, allowing us to better serve consumers, and cementing our partnerships with real estate professionals.

An immediate example of executing upon our strategic priority to expand our audience was announced today in our New York marketplace. During the fourth quarter of 2017, across all Zillow Group brands, for sale and rental listings in New York City attracted more than 32 million visits. StreetEasy and Naked Apartments have had incredible success in New York City due to their hyper-local focus and content. Together, they are established as go-to resources for everything real estate related in the city. Early last year, we expanded our presence in this region with the acquisition of Hamptons Real Estate Online, or HREO.com, a Hamptons-focused real estate portal that nicely complements our StreetEasy and Naked Apartments brands. Today, we retired the HREO brand and launched a new Hamptons brand using HREO's data infrastructure: Out East. With Out East, our seventh consumer brand, we are bringing that local focus and expertise to one of the most popular second home and vacation rental destinations for New Yorkers. The new mobile-friendly site provides buyers and renters with town guides, expansive for sale, for rent and land listings, and a customized shopping experience to help them discover their dream home in the Hamptons. We are excited for more shoppers and renters to discover the market-specific features and filters that are only available at OutEast.com.

Our second and third strategic priorities -- creating better experiences for consumers and evolving our revenue models to align with industry success -- hinge on our ability to enable more transactions for consumers and our advertisers.

Let me help connect the dots across a few important initiatives, starting with our Premier Agent business, which, taken as a whole, demonstrate how we are moving further down funnel and, ultimately, helping our advertisers improve conversion.

- The Premier Agent app helps connect home shoppers from our mobile apps and websites with great real estate agents, and helps agents improve their conversion and profitability.
- Dotloop provides real estate professionals with software to complete paperless transactions, spend less time on administrative tasks and more time with clients.

- Our Premier Agent Concierge service helps busy real estate professionals manage high lead volume while maximizing their return on investment. Zillow Group’s in-house Concierge team helps Premier Agents more efficiently connect with consumers, 7 days a week.
- Our new “My Agent” feature helps to cement the relationship between agent and client, while improving conversion. After being connected through Concierge, we are now enabling agents to have an exclusive relationship with consumers on Zillow or Trulia. Once My Agent is activated, when the buyer returns to Zillow or Trulia, the consumer sees only their agent. The typical buyer comes back to our apps or websites almost 30 times over the course of the month following initial contact². The exclusivity of the My Agent connection ensures that the consumer communicates only with their agent every time they come back, significantly strengthening that relationship.
- Enhancements to Premier Agent allow us to experiment with our contact module. We want to create a frictionless experience for consumers. To do that successfully, we have to work with the most consumer-centric agents. We are now gathering consumer satisfaction data on Premier Agents and Brokers, which will help us match consumers with great agents.
- Another new product that helps us get deeper down the funnel with home sellers and agents is Instant Offers. Currently testing in two markets, with more to come in 2018, Instant Offers has the potential to be an attractive listings acquisition opportunity for our advertisers. The early adoption of this product identified a subset of motivated sellers who value speed and certainty of a sale over price, and also connected agents with many consumers who were testing the waters, but want to sell a home in the traditional way.

I’ve just listed a few of the ways that we are moving down funnel and closer to the transaction, for the mutual benefit of our advertisers and consumers. Now, turning to how we’re aligning our revenue model with our partners’ growth. Last year, we changed our Premier Agent advertising model to an auction-based pricing system, and, for the full year, Premier Agent revenue grew more than \$157 million from 2016 to 2017, or 26 percent year-over-year. The new pricing model had the desired effect of increasing the revenue-per-visit in our largest markets. In those markets, revenue-per-visit rose 10 percent year-over-year. We continue to anticipate that revenue will increase system-wide this year, consistent with the experience in our test markets, as healthy auction marketplace dynamics gain traction.

Now, we are shifting our focus toward helping advertisers execute more transactions, since improvements in conversion result in better monetization. A key part of this monetization effort is our Premier Broker advertising program. Premier Broker is becoming widely adopted by some of the country’s largest local brokerages. The product allows brokerages to earn revenue by advertising on our brands and share commissions with their agents. The brokerage industry is becoming increasingly competitive, with new entrants that rely on technology, new commission-sharing models, and consumer discounts. The Premier Broker program enables brokerages of all types to compete more effectively with one another. This advertising product scales our platform beautifully, and gets more agents using our technology to prospect for and service their clients, as well as complete more real estate transactions.

² Zillow Group internal data.

We are applying the same strategic priorities of moving down funnel and evolving our revenue models to growing our emerging marketplaces as well. Most notably, we are expanding elements of our Concierge service to our Rentals, Mortgage and New Construction marketplaces. Through successful implementation of Concierge for Premier Agent, we know that the faster consumers are connected with a real estate professional, the more likely we are to make contact and deliver a more transaction-ready consumer to our advertisers.

In Rentals, we continue to innovate on our product offerings to enhance the experience for both renters and property managers. We expect to launch products that make the rental process more seamless for both sides over the next few months.

Across our marketplaces, we are in growth mode. We are very focused on creating a better home shopping experience for consumers, while providing our partners with the technology to do so. We wouldn't be able to take these big swings if we didn't have the best and brightest talent working for us. It continues to be a priority to attract and retain that talent and leverage Zillow Group's unique company culture focused on innovation as a competitive advantage. In the past few months, we received accolades for our workplace culture from Fortune, Glassdoor, Forbes and JUST Capital. Bloomberg also selected us for its inaugural Gender-Equality Index. These honors show that Zillow Group is a great place to work. We continue to improve on that every day with programs like The Home Project, Zillow Group's social impact program that addresses homelessness and housing insecurity, and our ongoing focus on reflecting the principles of equity and belonging in our workplace.

The market opportunity in front of us remains massive, especially as we evolve from lead generation to an end-to-end solution for consumers with a revenue model that aligns our success with the success of our partners. In 2017, we estimate there was approximately \$1.8 trillion in total U.S. transaction value for homes, up 7 percent over 2016. We estimate Premier Agents and Brokers earned roughly \$6.5 billion in commissions³ from contacts that originated on a Zillow Group platform. We estimate this represents about 7.5 percent⁴ of the \$87 billion total real estate agent commissions paid in the U.S. last year⁵. We reported nearly \$762 million in Premier Agent revenue in 2017. That's still a small amount relative to total commissions, but an increase from 2016, when contacts from Zillow Group drove an estimated \$4.4 billion⁶, or about 5 percent of all commissions⁷. We see significant opportunity to expand our addressable market over the long term. As we dive deeper in the funnel we see more opportunity to increase the number of transactions and commissions to our partners.

With that, I will turn it over to Kathleen for a financial review and our outlook for 2018.

³ Zillow Group internal estimate (2017 total industry commissions, REAL Trends / total leads to Premier Agents)

⁴ Zillow Group internal estimate (total transactions attributable to ZG / total industry transactions, National Association of REALTORS® 2017)

⁵ Zillow Group internal estimate (total new and existing homes sold, National Association of REALTORS® 2017 x average agent commissions, REAL Trends)

⁶ Zillow Group internal estimate (2016 total industry commissions, REAL Trends / total leads to Premier Agents)

⁷ Zillow Group internal estimate (total transactions attributable to ZG / total industry transactions, National Association of REALTORS® 2016)

Kathleen Philips, CFO

Thank you, Spencer, and hello to everyone joining us on today's call. I'll start with a review of our traffic metrics.

In line with our priority of growing our audience size, traffic to Zillow Group's mobile apps and websites reached approximately 152 million average monthly unique users in the fourth quarter of 2017, an increase of 8 percent year-over-year. Our peak traffic month in 2017 was July, when more than 187 million unique users visited Zillow Group's mobile apps and websites. With such a large audience scale, we continue our intense focus on how to better engage with our audience. We know that consumers who visit frequently are more likely to be ready to buy, sell or rent a home. We have many marketing initiatives in place to drive more visits, including mobile and email alerts that bring consumers back regularly. As a result, in the fourth quarter of 2017, visits reached more than 1.4 billion, up 21 percent year-over-year. For the full year 2017, we achieved a 19 percent year-over-year increase to 6.3 billion visits. Our goal is to help visiting consumers connect with a real estate professional, which ultimately means increasing transactions and commissions for our advertisers. In 2018, we will be investing heavily in areas to increase conversion.

Now turning to our financial results for the quarter. Total revenue for the fourth quarter grew 24 percent year-over-year to more than \$282.3 million.

Premier Agent revenue for the fourth quarter grew 21 percent year-over-year to \$199.5 million. Premier Agent revenue per visit was consistent with the same period last year. As we discussed on our last call, our fourth-quarter Premier Agent revenue guidance included our best estimate of the impact of seasonality. Since our results were in line with our outlook, we do not believe there was an unexpected impact from seasonality due to our new auction-based pricing model.

Revenue from Premier Agent advertisers who have been on our platform for more than one year grew by 41 percent compared to the prior year. New sales to existing advertisers, or those that were paying advertisers at the start of the quarter, made up 63 percent of total bookings in the fourth quarter. The number of advertisers spending more than \$5,000 per month grew by 70 percent year-over-year and increased 64 percent on a total dollar basis during the quarter.

Fourth quarter Other Real Estate revenue grew 60 percent year-over-year to \$47.6 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 and services for real estate professionals.

Fourth quarter Zillow Group Rentals revenue grew 51 percent year-over-year and average monthly rental unique users increased 18 percent year-over-year to 29 million. More property managers are realizing the benefits of advertising on Zillow Group's network of rental mobile apps and websites. We ended the year with more than 21,000 properties advertising their unit availability with us.

Starting with the first quarter of 2018, we will begin reporting Rentals revenue as a separate category. This category will include rental advertising revenue from Zillow, Trulia, HotPads, StreetEasy and Naked

Apartments. Please note that we included first quarter and full year 2018 Rentals revenue guidance in our news release issued this afternoon.

Mortgages revenue was \$18.5 million in the fourth quarter, which represents a 12 percent increase year-over-year. Average revenue per loan information request increased 26 percent year-over-year.

Display revenue for the fourth quarter was \$16.7 million, a decrease of approximately 1 percent over the same period last year. As a reminder, we began our intentional shift from traditional display advertising revenue about three years ago to focus on providing consumers with more personalized experiences that lead to valuable connections for our marketplace advertisers. Beginning next quarter, Display revenue will be included in our Other Revenue category and not reported separately. Going forward, Other Real Estate Revenue will be renamed as Other Revenue and will include revenue from New Construction, dotloop, Display, as well as from the sale of various other advertising and business software solutions.

Shifting now from revenue to our expenses for the fourth quarter.

Total operating expenses were \$443.6 million. During the fourth quarter of 2017, we recognized a non-cash impairment charge of \$174 million related to our Trulia trade names intangible asset. Further details on this non-cash impairment charge are included in the Form 8-K we filed with the SEC this afternoon, which can be found on our [investor relations website](#).

The combination of Zillow and Trulia was the most strategic and transformative business move we have ever made. Trulia has brought – and will continue to bring – significant value to Zillow Group. Through the merger of Trulia and Zillow, and the development of the other consumer brands in our portfolio, we have been able to combine our ad products, grow revenue rapidly, improve listings quality, develop new business models, gain widespread adoption of our software suite (including dotloop and the PA app) and begin experimenting with Instant Offers. We look forward to continuing to grow the Trulia brand as a key part of our portfolio and overall future success.

Our cost of revenue was \$22.6 million, or 8 percent of revenue.

Sales and marketing expense was \$103.9 million, or 37 percent of revenue.

Technology and development costs were \$85.2 million, or 30 percent of revenue.

General and administrative costs were \$57.8 million, or 20 percent of revenue.

Moving on to our bottom line, GAAP net loss for the quarter was \$77.2 million, or 27 percent of revenue, and includes the impact of the non-cash impairment charge, which was partially offset by an \$89.6 million tax benefit we recorded in the quarter. Approximately \$66.0 million of this tax benefit was a result of the non-cash impairment. The remaining \$23.6 million of this tax benefit was primarily a result of the recent reduction in the federal tax rate. This decrease in rate was applied to our net deferred tax liability related to our Trulia trade name intangible asset.

Our EBITDA for the fourth quarter was \$70.9 million, or 25 percent of revenue. Our fourth quarter EBITDA was impacted by an opportunistic increase in advertising spend in the quarter, as well as by commissions paid due to higher-than-expected sales bookings that will be recorded as revenue in future quarters.

We ended the quarter with nearly 3,200 employees across all of our offices.

Now turning to our outlook for 2018. For detailed first quarter and full year 2018 guidance, I encourage you to review our press release that was issued this afternoon and is available on our [investor relations website](#).

We expect full-year Revenue to be within a range of \$1.302 to \$1.317 billion, which represents approximately 22 percent year-over-year growth at the midpoint of the range. We also are introducing our full-year EBITDA outlook, which we expect to be in the range of \$300 to \$315 million, or 23 percent margin at the midpoint.

For the full year 2018, we expect operating expenses to be within the range of \$1.24 to \$1.255 billion.

We also are providing some additional details on expenses and EBITDA to support your modeling.

First, we expect that our sales and marketing expenses will be greatest during the first half of the year. Included within our sales and marketing expenses are our advertising costs. In 2017, we increased our advertising expense across all of our brands and marketplaces to \$156.5 million, compared with \$120.2 million in 2016. Total advertising expense, which we report on an annual basis, came in a little higher than planned, partially due to the opportunistic increase in advertising expense during the fourth quarter that I noted earlier. In 2018, we plan to increase our advertising spend again with a target growth rate that is in line with our forecasted annual revenue growth.

Next, our technology and development expenses are expected to grow in 2018 as we increase investments in our long-term growth initiatives, much as we did in 2017. Consistent with our philosophy throughout the life of our company, we continue to believe that it is important to invest in new products and technology today to stay ahead of changing consumer expectations that are disrupting the real estate category. We expect to invest approximately \$50 million more than we did in 2017 in innovations like Instant Offers, Concierge, 3D Homes, Rental products, PA app enhancements, technology infrastructure and data, along with other initiatives that we believe will further position Zillow Group as both the consumer destination for home shopping and the preferred long-term technology partner to the real estate industry.

Accordingly, we expect our investments to cause quarterly EBITDA to fluctuate throughout the year. Based on our current estimates, first, second, third and fourth quarter EBITDA are expected to represent approximately 15, 20, 30, and 35 percent of the full year total EBITDA, respectively.

We have previously shared that we were engaged in discussions with the Consumer Financial Protection Bureau, or CFPB, but had not yet come to a resolution. We still hope to put this matter behind us as

soon as possible, and continue to firmly believe that our co-marketing program allows agents and lenders to comply with their legal obligations.

To conclude, 2017 was a milestone year for Zillow Group. In our 6 years as a public company, we went from \$66 million in annual revenue to over \$1 billion. This past year, we successfully transitioned the pricing model of our Premier Agent business; launched a new consumer brand with RealEstate.com; continued to grow our emerging marketplaces, including two strategic acquisitions; and introduced several innovative new products that both consumers and our real estate industry partners are excited about. In 2018, we are choosing to invest in supporting the evolution of our business and, specifically, the strategic priorities that Spencer outlined. We're off to a strong start and we look forward to keeping you updated on our progress throughout the year.

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 Q1 results in May.

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Zillow Group's fourth quarter and full year 2017 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 8, 2018, which is available on the Investor Relations section of the Zillow Group website at <http://investors.zillowgroup.com/sec.cfm> and the SEC's website at www.sec.gov.

Forward-Looking Statements

These prepared remarks contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which involve risks and uncertainties, including, without limitation, statements regarding Zillow Group's business and financial outlook, strategic priorities, legal proceedings, and operational plans for 2018. Statements containing words such as "may," "believe," "anticipate," "expect," "intend," "plan," "project," "will," "projections," "continue," "estimate," "outlook," "guidance," and similar expressions constitute forward-looking statements. Differences in Zillow Group's actual results from those described in these forward-looking statements may result from actions taken by Zillow Group, as well as from risks and uncertainties beyond Zillow Group's control. Factors that may contribute to such differences include, but are not limited to, Zillow Group's ability to maintain and effectively manage an adequate rate of growth; Zillow Group's ability to innovate and provide products and services that are attractive to its users and advertisers; Zillow Group's ability to compete successfully against existing or future competitors; Zillow Group's investment of resources to pursue strategies that may not prove effective; the impact of the real estate industry on Zillow Group's business; the impact of pending legal proceedings described in Zillow Group's filings with the Securities and Exchange Commission, or SEC; Zillow Group's ability to successfully integrate and realize

the benefits of its past or future strategic acquisitions or investments; Zillow Group's ability to maintain or establish relationships with listings and data providers; the reliable performance of Zillow Group's network infrastructure and content delivery processes; and Zillow Group's ability to protect its intellectual property. The foregoing list of risks and uncertainties is illustrative but not exhaustive. For more information about potential factors that could affect Zillow Group's business and financial results, please review the "Risk Factors" described in Zillow Group's Annual Report on Form 10-K for the year ended December 31, 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 February 8, 2018, which is available on the Investor Relations section of the Zillow Group website at <http://investors.zillowgroup.com/sec.cfm> and the SEC's website at www.sec.gov.

Adjusted EBITDA is a key metric used by Zillow Group's management and board of directors to measure operating performance and trends, and to prepare and approve the company's annual budget. Zillow Group's use of Adjusted EBITDA has limitations as an analytical tool, which limitations are described in its earnings press release. You should not consider Adjusted EBITDA in isolation or as a substitute for analysis of Zillow Group's results as reported under GAAP.