ZILLOW, INC. Q4 AND FULL YEAR 2012 EARNINGS – PREPARED REMARKS

FEB. 13, 2013

Raymond Jones, IRO:

Thank you. Good afternoon and welcome to Zillow's fourth-quarter and full year 2012 earnings conference call. Joining me today to talk about our results are Spencer Rascoff, Chief Executive Officer, and Chad Cohen, Chief Financial Officer.

Before we get started, as a reminder, during the course of this call we will make forward-looking statements regarding the future events and the future financial performance of the Company. We caution you to consider the important risk factors that could cause actual results to differ materially from those in the forward-looking statements made in the press release and on this conference call. These risk factors are described in our press release and are more fully detailed under the caption risk factors in our Quarterly Report on Form 10-Q for the three months ended June 30, 2012 and our Annual Report on Form 10-K for the year ended December 31, 2011 and in our other filings with the SEC.

In addition, please note that the date of this conference call is February 13, 2013, and any forward-looking statements that we make today are based on the 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 present both GAAP and non-GAAP financial measures. A reconciliation of GAAP to non-GAAP measures is included in today's earnings press release. In our remarks, the non-GAAP financial measure adjusted EBITDA will be referred to simply as EBITDA, which excludes share-based compensation.

This call is being broadcast on the internet, and is available on the Investor Relations section of the Zillow website at investors.zillow.com. A recording of this call will be available after 8:00 PM Eastern Time today. The earnings press release is available on our website, and after the call, a copy of today's prepared remarks will also be available on our website. After management's remarks we will host a Q&A session.

I will now turn the call over to Spencer.

Spencer Rascoff, CEO:

Thank you all for joining the call today to discuss our 2012 fourth quarter and full year results.

I'll start by reviewing some quarterly and full year financial highlights, and then I will outline our strategic priorities for 2013.

Next, Chad will discuss our 2012 results in more detail, as well as our outlook for the first quarter and full year 2013. Then we'll open up the call for questions.

The fourth quarter turned out better than we expected. We achieved record revenue while executing a pricing model transition in our Premier Agent business – all during what's typically the seasonally slowest period of the year in housing. Solid execution on the part of both our Premier Agent sales team and our Display sales teams resulted in Q4 revenue of $34.3 million, up 73% year-over-year. We also successfully closed three acquisitions: Mortech, which provides a CRM and pricing engine to the mortgage industry; HotPads, a consumer rental shopping site and suite of mobile apps; and BuyFolio, a collaborative shopping tool that enhances our Premier Agent offering. These acquisitions each accelerate development of our mortgage, rental and real estate marketplaces.

We ended 2012 on a strong note from Q4, and brought our full year revenue to nearly $117 million, growing 77% over full year 2011. Marketplace Revenue reached almost $87 million, up 105% (and grew from about 15,800 Premier Agents at the end of 2011 to almost 29,500 Premier Agents at the end of 2012). Full-year Display Revenue grew 26% and exceeded $30 million for the year. EBITDA for 2012 was $25 million, up 112% year over year, and represented 22% of revenue. We also showed significant earnings growth with $5.9 million in net income, up from $1.1 million in 2011.

In addition to record revenue and profit, in 2012 we extended our usage lead as the largest real estate website and mobile platform. During the year, we hit a high of 37 million monthly unique visitors. We also "tipped" to mobile, with more monthly visits now coming from Zillow mobile than on the Web.

While we are pleased with our fourth quarter and full year 2012 results, we now turn the page to 2013 and the tremendous market opportunities that lie ahead.

In 2013, we have 3 priorities for the year: first, to continue the rapid expansion of our user base on mobile and desktop; second, to substantially grow our Premier Agent business; and third, to accelerate development of our emerging marketplaces in mortgages, rentals and home improvement. I will now spend some time discussing each priority.

Our first priority is to grow our user base and extend our leadership position across mobile and Web. We are off to a good start, as January traffic reached nearly 46 million unique users for the first time, with just over half of our visits on a mobile device. Or, to put it another way – *mobile* traffic in January was larger than ALL of our traffic to Zillow just three years ago, in January 2010. We now have 23 distinct mobile apps for consumers and professionals, across all platforms, and we have significant resources in 2013 devoted to improving our existing mobile experience, and launching new apps.

In addition to mobile, our product development efforts this year are focused deeply on expanding and improving our buyer experience on Zillow, which ultimately creates more leads for Zillow Premier Agents. We recently added more than one million pre-market and foreclosure listings, for free, on Zillow. This is unique inventory that is typically not available on other sites, or an MLS. We are also in the midst of substantially improving our map-based home and neighborhood search experience, and redesigning major portions of our site to better serve the needs of buyers. We are testing new versions of our homepage and our listings detail pages. And we're improving the timeliness of our listings, and user saved search and notification capabilities.

In support of our first priority of growing usage, following highly measured testing in 2012, we are now stepping on the gas in 2013 in several advertising channels that showed promise last year. We are focusing our advertising spend on home buyers, who are likely to contact our Premier Agents. For competitive reasons we will not get into specifics about our media plans, but overall we expect that our 2013 Sales & Marketing spend will be up about 70% year-over-year. With most of our current traffic coming to us for free, and in a category without a recognized incumbent brand leader, we have a tremendous opportunity to use advertising to grow our brand, usage and leadership position over the long term.

Our proven Premier Agent model gives us great monetization, and our confidence in the size of the Total Addressable Market gives us the confidence to increase our advertising investment in 2013 in order to extend our leadership and drive long term revenue growth.

In addition to product development and advertising, both of which grow usage of Zillow, we were pleased last week to announce a new partnership with HGTV's Frontdoor.com. Similar to our Yahoo partnership, beginning in the second quarter, Zillow will be the exclusive provider of all real estate listings for HGTV's FrontDoor.com, and Zillow Premier Agents also will receive exposure through FrontDoor.

This new opportunity for our Premier Agents on FrontDoor takes us now to our second priority for 2013, which is to grow our Premier Agent business. While we are growing rapidly on an absolute basis, off a much larger base than our competitors, we do not believe that the online real estate advertising category is mature enough to consider it a zero-sum market. Our most recent results show that our Premier Agent business is at about a $90 million run-rate, which we estimate is less than 2% of the total spent on advertising by agents each year. We are lightly penetrating a huge addressable market that derives from the estimated $50-$60 billion in commissions generated each year by real estate agents. In terms of number of agents, today we have about 29,500 Premier Agent subscribers, a small fraction of the hundreds of thousands of active, practicing agents nationwide. We're growing this business very quickly – Premier Agent revenue and subscribers were both up around 90% year over year in the quarter– but we still have a lot of running room in front of us.

Having recently transitioned our pricing and inventory model, the opportunity in the near term is to bring more agents onto our platform as our impression inventory grows with traffic. We have built a highly-capable professional sales force that we can leverage efficiently as we grow. Our pricing can now adjust more dynamically as our subscriptions continue to increase in value. Agents working with Zillow view success in terms of increased sales and commissions compared to dollars spent – thus the more we can do to help agents gain clients from Zillow Mobile and Zillow.com, and increase their conversion through software tools, the more valuable a subscription with us becomes. Further, as agents utilize more of our services like our CRM and Premier Agent websites, the more agents we retain for the long term.

In 2013, we will continue to enhance our Premier Agent offering - including adding new features to our CRM, and rolling out our Buyfolio service nationwide, as well as launching new software features. Supporting our growth plans, we will continue to expand our sales force, build new relationships with brokerages on a national and local basis through our Zillow Pro for Brokers program, and establish other partnerships that benefit both professionals and consumers.

Our third priority in 2013 is to continue building out and growing our emerging marketplaces. We often talk about the Premier Agent business in depth because it is the bulk of our revenue today, but our market opportunity is much larger than residential real estate advertising. It includes tens of billions of dollars spent by professionals in mortgage, rentals and home improvement on advertising and software.

Just last week we launched Zillow Digs, which marked the debut of our fourth marketplace: home improvement. Digs is a beautiful new product – one that is particularly well-suited for the form factor of the iPad, which we launched simultaneously with the desktop. Zillow Digs provides consumers with a compelling and immersive social experience in home improvement, one that reinforces the value of Zillow to homeowners. The launch includes a revolutionary new tool for consumers found only on Zillow: Digs Estimates, a first-of-its-kind remodeling cost estimate algorithm created by Zillow's industry-leading team of economists and data analysts. The patent-pending technology in Digs Estimates helps home shoppers and homeowners understand what it might actually cost to recreate the looks they see in the thousands of photos of real bathrooms and kitchens on Zillow Digs. The early response to Zillow Digs has been extremely favorable, including strong reviews and featuring in the Apple App Store, and favorable media coverage and social media commentary. Consistent with Zillow's proven formula for creating marketplaces, we are focused first on building a product that consumers love, that is mobile centric, and that leads to traffic growth.

The Zillow strategy for creating marketplaces is to initially allow professionals to connect with consumers for free, then look to monetize when we reach sufficient scale. Later we will seek to add software tools to the professional offering and refine our monetization approach. In 2013, our focus for Digs will be on creating a great consumer experience. Just as we did with Zillow Rentals starting three years ago, and with Zillow Mortgage Marketplace starting five years ago, we are planting seeds with the launch of Zillow Digs. We are already seeing good revenue and profit contribution from Mortgages, and we expect rentals and eventually Zillow Digs to pay off as well.

Continuing on the topic of our emerging marketplaces, I'll now turn to our mortgage marketplace, where consumer usage and monetization continue to grow, and we remain busy integrating the operations of recently acquired Mortech. Consumer loan requests in the marketplace reached almost 12 million in 2012, more than doubling our 2011 query level of 5.5 million, resulting in revenue nearly doubling as well. Mobile continues to be a strong contributor to our Mortgages business, accounting for about a quarter of our searches and revenue. With more home buyers getting off the sidelines in this persistent low-mortgage-rate environment, we remain well positioned to benefit from the improving housing market. In 2013, we will continue to add lenders to our platform and expand our suite of services we offer to mortgage professionals that go beyond advertising.

Finally in our rental marketplace, we continue to build out both the consumer and professional sides of the market. Currently we are assimilating our first consumer-facing acquisition of

HotPads into the operations of Zillow Rentals. Along with a talented and very experienced product development team, HotPads brings a complementary and highly engaged audience to the Zillow Rental Network, in addition to the more than 6 million current renters that come to Zillow each month. Also we are growing our listings count, which now exceeds 600,000 with more direct relationships coming aboard daily. Recently we expanded our suite of services for pros to include free websites for property managers. Our projected timeline for monetizing the rentals marketplace has accelerated into late 2013, with increased traffic across our network facilitating the growth of our listings count, driving increased consumer usage and adoption by professionals.

To summarize, our top three priorities for 2013 are:

1) Increase our audience on desktop and mobile
2) Grow our Premier Agent business
3) Build our emerging marketplaces of Home Improvement, Mortgages and Rentals

Before I conclude, let me discuss our 2013 outlook. We expect full-year 2013 revenue to be in the range of $165 million to $170 million. And as I've outlined, a core 2013 priority for us is to grow our user base, and with this we have decided to meaningfully increase our advertising this year. We plan to strategically increase our sales and marketing spend in 2013 by about 70% year over year. Due to this increased advertising investment, we expect our EBITDA margin percentage will be flat to slightly down compared to 2012. Investing in our brand today is the right thing for our business over the long term, because of the huge brand "white space" in this category. We remain excited about our tremendous leadership potential as we further advance our home-related marketplaces in the coming year and beyond.

To conclude, I would like to sincerely thank all of our employees, partners, Premier Agents and shareholders as we work hard to give both consumers and real estate professionals an edge in real estate.

And now I will turn the call over to our CFO, Chad Cohen.

Chad Cohen, CFO:

Thanks Spencer.

First I'm going to run through the details of our fourth quarter and full year financial results, and then I'll share our outlook for the first quarter of 2013. I'll also spend a few minutes giving some more perspective on the coming year.

Starting with our traffic in the fourth quarter, more than 34.5 million average monthly unique users visited Zillow's mobile applications and websites. That's up 47% from the same quarter last year.

Total revenue for the fourth quarter increased 73% year over year to a record $34.3 million, up from $19.9 million in the same quarter last year. Total revenue in the fourth quarter exceeded the midpoint of our guidance of $30.5 million by approximately 12%. We continue to see a favorable shift in our revenue mix as we ended the fourth quarter with 78% of our revenue coming from our Marketplace category, while 22% came from Display. Partial period revenue contributions from our acquisitions of Mortech and HotPads were immaterial due to the timing of the completed transactions landing late in the quarter which was consistent with our expectations.

Taking a deeper dive into our primary revenue category, Marketplace revenue grew 95% year-over-year to $26.8 million. We continued to see strong growth rates across our Premier Agent, Mortgage and Diverse Solutions businesses.

Drilling down further in the Marketplace category, we are almost finished with the transition of our subscriber base from percentage-share-of-voice to fixed-impression-based subscription terms. Moving through this transition in the methodical way that we planned, our sales team connected superbly with our customers and helped them navigate the changes with ease.

Over the course of the fourth quarter, approximately two-thirds of the agents that converted to impression-based contracts kept their spending levels the same with us, while one-third increased their spend. Very few agents decided not to renew their subscriptions, which is a testament to the strong Premier Agent value proposition. In addition, as new inventory became available, we brought three times as many new Premier Agents onto our platform as we did a year ago. By the end of this week, we will be completely through our transition to impression-based pricing and our subscriber base will be fully converted, which sets us up for continued growth in 2013.

Back to our results, during the quarter we added 2,770 net new Premier Agents, and ended the period with 29,473 subscribers. The vast majority of additions were at the Platinum level, and the proportion of new Platinum Premier Agents added increased sequentially over the third quarter, continuing the trend we've seen throughout the year.

Average monthly revenue per user, or ARPU, was $267 in the fourth quarter, and, while 3% higher than the figure in the same period last year, sequentially ARPU was essentially flat compared to our third quarter. Looking at our bookings, more than 40% of our new sales were to existing agents buying more exposure across mobile and Web in their sales territories, which was slightly higher than in the third quarter. As a reminder, pricing of our Platinum Premier Agent subscriptions varies by market reflecting local home values, as well as contact liquidity and demand for impressions in a ZIP code.

Looking at our other revenue category, Display revenue in the fourth quarter grew 22% year over year to $7.5 million. This represented approximately a 10% sequential seasonal decrease from the third quarter. As a reminder, Display advertising is less predictable than Marketplace due to shorter lead times and non-subscription nature.

Shifting now from revenue to our operating costs, total operating expenses were $33.8 million compared to $19 million during the fourth quarter 2011. Our acquisition of RentJuice earlier in the year resulted in non-comparable increases in our operating expenses during the quarter compared to 2011, with the bulk of them primarily related to headcount occurring in Sales and Marketing as well as Technology and Development lines. As mentioned earlier, the acquisitions of Mortech and HotPads had minimal impact due to the timing of the close of the transactions.

Our cost of revenue during the quarter was $3.8 million, or 11% of revenue, compared to $3 million, or 15% of revenue, in the fourth quarter 2011. We continue to see favorable leverage with our revenue-sharing arrangements due to higher growth from our owned and operated properties relative to our partners.

Sales and Marketing expense was $14.5 million, or 42% of revenue, compared to 38% of revenue, or $7.6 million, in the fourth quarter of 2011. In the fourth quarter we continued to expand our targeted advertising testing across a number of mobile, online and offline channels. Total advertising and marketing spend in the fourth quarter was approximately $4 million, which was nearly $2 million more than in the fourth quarter of 2011.

Technology and Development costs in the quarter were $9.1 million, or 26% of revenue, compared to $4 million, or 20% of revenue, in the fourth quarter 2011. The increase reflects higher depreciation and amortization costs and increased headcount related expenses, mostly non-comparable year over year related to our acquisitions.

G&A costs in the fourth quarter were $6.4 million, or 19% of revenue, as compared to fourth quarter 2011 of $4.5 million, or 22% of revenue. The primary increase in absolute dollars year over year is attributed to transaction related and integration costs, as well as higher facilities expenses.

EBITDA for the quarter was $6.8 million, representing a 20% margin, which was up from $3.3 million, or 17% margin in the fourth quarter 2011. As our expense structure came in mostly on plan, a significant portion of our revenue upside flowed through to earnings.

Net income was $549,000 in the fourth quarter, compared to $922,000 in the fourth quarter 2011. Fourth quarter 2012 basic and diluted earnings per share were $0.02, based on 33.4 million and 36.3 million weighted average shares outstanding, respectively.

Moving now to our full-year 2012 performance, total revenue increased 77% to $116.9 million, up from $66.1 million generated in 2011. In our revenue categories, Marketplace revenue increased 105% year over year to $86.7 million, up from $42.2 million in 2011. Display revenue for 2012 was $30.2 million, increasing 26% from $23.9 million in 2011.

Our revenue mix for the year consisted of 74% of revenue coming from our Marketplace category, while 26% came from Display – a 10 percentage point favorable shift over 2011 results, reflecting the healthy advance of our Marketplace businesses.

EBITDA for the full year 2012 was $25.2 million representing 22% of sales, and was 112% higher than 2011 full year EBITDA of $11.9 million.

Net income for 2012 was $5.9 million, which was $0.20 per basic share, and $0.18 per diluted share. In 2011 net income was $1.1 million, or $0 per basic and diluted share under GAAP.

Turning briefly to our balance sheet, we ended the year with approximately $204 million in cash, cash equivalents and investments, and we had no debt.

Zillow continues to generate positive and fast cash-flow cycles. In 2012, operating cash flow totaled $32.3 million or 28% of revenue, enabling significant flexibility in our capital structure to support operational and strategic initiatives in pursuit of our long-term growth opportunities.

Zillow ended 2012 with just over 550 employees, up from approximately 330 at the end of 2011, and we continue to grow in support of our strategic priorities: growing traffic, increasing the size of our Premier Agent business, and developing our three emerging marketplaces.

Now let me provide a few comments on our outlook for the first quarter of 2013.

Our revenue for the first quarter of 2013 is expected to be in the range of $36 to $37 million. This outlook represents 60% year-over-year growth at the midpoint of the range.

For our first quarter outlook on EBITDA, we expect a range of $3 million to $3.5 million. At the midpoint of our range, this represents approximately a 9% margin.

Although we are not providing a GAAP EPS outlook for the first quarter, we expect a basic and diluted weighted average share count of approximately 34 and 37 million shares for the first quarter, respectively.

Looking now at the full year 2013, as Spencer mentioned, we expect full-year revenue of between $165 million and $170 million, and we expect EBITDA margin percentage to be flat to slightly down year over year. Supporting our priorities to grow usage, to grow our Premier Agent business, and to grow our emerging marketplaces, we will be expanding our investments in product development and advertising across various channels over the course of the year. These are very early days for us, and the investments we are making support our efforts to gain market share and extend our leadership in the real estate category. While we have successfully demonstrated throughout 2012 that our model has high operating leverage, we are prioritizing building competitive advantages and deepening our competitive moats for the long term rather than focusing on near-term profit maximization.

To assist in modeling the full year 2013, we expect depreciation and amortization in the range of $24 million to $26 million, share-based compensation in the range of $14 million to $17 million, and CapEx and capitalized data content in the range of $10 million to $13 million. We expect full year 2013 basic and diluted share counts to be approximately 36 million and 39 million weighted average shares, respectively.

Zillow had an outstanding fourth quarter, capping off an exceptional year. We are extremely pleased with our growth and the advancement of our home-related marketplaces and even more excited about our potential in 2013 and beyond.

In parting, to accommodate investor schedules, we are adjusting the date and location of our investor day to Wednesday, March 27 in San Francisco. We will be following up with details in the weeks ahead, and we look forward to seeing you at our event.

We would now like to open up the call for questions.

Spencer Rascoff, after last question:

Thank you very much for joining us on our call today to discuss our 2012 results and our 2013 strategic priorities of increasing our audience, growing our Premier Agent business and building our emerging marketplaces. We look forward to speaking with all of you again soon.