Thank you. Good afternoon, and welcome to Zillow Group’s investor update call. Earlier today, we announced the launch of a new business initiative to buy and sell homes on the open market. Joining me today to answer your questions about the announcement is Zillow Group’s Chief Executive Officer, Spencer Rascoff, and Chief Financial Officer, Kathleen Philips.

During the call, we will discuss selected preliminary financial results for the first quarter of 2018. This information is subject to change pending completion of our financial closing and review procedures. The selected preliminary financial information and actual financial results as reported in our Quarterly Report on Form 10-Q may differ materially. We will also 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 April 12, 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.

We will discuss GAAP and non-GAAP measures. We encourage you to read our Investor Update Call slide presentation, as it contains important information about our selected preliminary GAAP and non-GAAP results, including reconciliation of the non-GAAP financial measure. This slide presentation with exhibits has been posted to the Events & Presentations section of our Investor Relations website and will be referenced during this call.

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 taxes.

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 #ZHomes. On Slido, you may vote on which submitted questions you want us to answer. This will ensure that we prioritize the questions that you consider most important. You may begin submitting questions and voting now.
This call is being broadcast on the Internet and is available on the Investor Relations section of Zillow Group’s 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.

Earlier today, Zillow Group announced an expansion of its Instant Offers program into the Phoenix market.

We started the Instant Offers test in May 2017 in Las Vegas and Orlando to meet a growing consumer demand for a faster, more efficient home selling process. As background on this program, potential home sellers submit information to Zillow about their home, and within two business days, receive investor offers to directly purchase their home alongside a Premier Agent’s analysis of what the home would sell for on the open market. What we learned from our test is that some consumers look at many factors when deciding to sell a home. Our process offers transparency, convenience and choice for sellers, and gives them certainty over their sale price and timing.

We are confident that we can provide these consumers with a positive home selling experience. As part of today’s expansion of Instant Offers, Zillow Group will now participate in the marketplace and begin buying and selling homes in Phoenix and Las Vegas. We believe that Zillow Group possesses structural advantages in this space. Our audience scale will help us source sellers, as well as buyers for homes owned by Zillow. Our brand, resources, adjacent mortgage advertising marketplace, and deep data expertise position us favorably.

We are hiring full-time employees and will work with local professionals in each market to facilitate the purchase, renovation and sale of homes. At this time, we are ramping headcount quickly as we build for future volume. To oversee this new business, we hired Arik Prawer as Chief Business Development Officer. Arik has significant industry experience working for companies that manage large real estate portfolios, including Colony American Homes and Invitation Homes. We have recruited a world-class team for this new business, including an SVP of Acquisitions, VP of Operations and Risk Management, executives in charge of underwriting, local general managers, and more.

In line with our priority of evolving our revenue model to better align our results with our industry partners’ success, we believe the benefits of buying and selling homes will extend to our industry partners, too. Zillow’s Instant Offers program partners with the real estate industry and keeps agents at the center of the transaction. There are multiple ways brokers and agents can partner with Zillow Instant Offers and earn commissions.

The expansion of Instant Offers is an example of how we are evolving toward being a deeper funnel industry partner. We are committed to creating better experiences for consumers and more efficiency for our real estate industry partners, as we accompany home shoppers further down the funnel and closer to the transaction. Instant Offers complements our advertising business, as we enter the next
phase of Zillow Group’s evolution, in which we move beyond lead generation, allowing us to better serve consumers, and cementing our partnerships with real estate professionals.

Another example of how we are moving down funnel is a test we are beginning this month for our Premier Agent business. We are rolling out a new process for validating connections for advertisers, while enhancing the consumer experience on our platforms. Moving forward, when a consumer submits a request for contact on a listing without selecting an agent, we will be qualifying the consumer before connecting them to agents live over the phone. We will call agents based on their share of voice in the requested zip code, and the lead will be worked based on who picks up the phone. These changes will help us to create a better experience for our large audience of consumers that are looking for a better home buying or selling process, while delivering validated quality connections for our advertisers.

With that, I’ll turn the call over to Kathleen.

**Kathleen Philips, CFO**

Thank you, Spencer. I’ll start with an overview of our new financial reporting structure, which is included on slide 4 of the presentation available on our investor relations website.

Because we will be buying and selling homes, we will be changing the way we report our financial results. Starting with our second quarter 2018 announcement in August, we will report our financial results for two segments: first, Internet, Media & Technology, or IMT; and, second, Homes. In addition to presenting our consolidated Zillow Group results, we will break out the revenue, costs and EBITDA associated with each segment separately.

The IMT segment will consist of our Premier Agent, Rentals, Mortgages and new construction marketplaces, as well as dotloop, display and other advertising and business software solutions. As we have discussed, the addressable market opportunity for this segment is approximately $17 billion, which consists of the total dollars spent for online and offline advertising by real estate agents and brokers, mortgage providers, rental property managers, and home builders\(^1\). Our largest marketplace in the IMT segment is Premier Agent, which generated nearly $762 million in revenue in 2017, or roughly 8 percent of that addressable market.

We believe the size of the opportunity for the Homes segment is very large and complementary to our existing business. As Zillow Group participates in the Instant Offers managed marketplace by buying and selling homes on the open market, the addressable market opportunity is directly linked to the aggregate transaction value of all homes sold in the U.S., which was an estimated $1.8 trillion in 2017\(^2\).

As you can see from the table on slide 5, the revenue we report for the Homes segment will be equal to the sale price of homes we have purchased, and our gross margin on these transactions will be the difference between the sale price and our original purchase price, less the cost of necessary repairs and

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\(^1\) Borrell Associates 2017; Total spent on online and offline residential real estate advertising.

other transaction costs. We are targeting 90 days or fewer for turnaround time from initial purchase to resale.

Initially, we will use cash from our balance sheet to fund the purchases of homes and related costs. We expect to use debt financing in the future to fund a portion of the purchase price of homes and certain costs.

Along with today’s news, we announced selected preliminary results for the first quarter of 2018, which you will find on slide 6. We now expect to report total revenue in the range of $299 to $301 million, GAAP net loss in the range of $18 to $20 million, and EBITDA in the range of $45 to $47 million.

Since the full year outlook we provided on February 8th does not reflect the addition of this new segment, today we are providing an updated full year outlook on a consolidated basis. On our earnings call in early May, we will provide a segmented outlook for the second quarter and full year 2018, including detail on the estimated allocation of certain costs between each segment. We estimate that there were approximately $15 to $20 million of committed expenses related to Instant Offers that were included in the full year 2018 outlook we provided that will be reallocated to the Homes segment. In addition, we expect to incur a significant amount of incremental expense in our Homes segment during 2018 related to hiring, operations, and cost sharing, subsequent to the end of the first quarter. We now expect to report full year 2018 consolidated revenue of $1.43 to $1.58 billion and EBITDA of $260 to $285 million. This outlook assumes that we are holding an estimated 300 to 1,000 homes for resale as of December 31, 2018.

This is a very exciting development for Zillow Group. Through our experience with Instant Offers, we have learned that many consumers want a more certain and controlled home selling process, and we believe we can provide a solution for that demand. Our IMT segment remains strong and we continue to believe in our ability to drive revenue growth and steady margin expansion over time.

With that, we will now open up the call for questions.

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Selected Preliminary Financial Information and Forward-Looking Statements
These prepared remarks include selected preliminary financial information for the first quarter of 2018. This information is subject to change pending completion of our financial closing and review procedures.
The selected preliminary financial information presented here and actual financial results as reported in our Quarterly Report on Form 10-Q may differ materially.

These prepared remarks also 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, market opportunities, 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 investment of resources to pursue strategies that may not prove effective; the impact of the real estate industry on Zillow Group’s business; 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 ability to maintain and effectively manage an adequate rate of growth; the impact of pending legal proceedings described in Zillow Group’s filings with the 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, 2017 as filed with the SEC on February 8, 2018, 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 Measure
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 Investor Update Call slide presentation, as it contains important information about the company’s select preliminary financial results, including reconciliation of preliminary Adjusted EBITDA to the most comparable GAAP measure and related information about Adjusted EBITDA. The slide presentation is available on the Investor Relations section of the Zillow Group website at http://investors.zillowgroup.com/releases.cfm#events. It is also included as Exhibit 99.2 to the company’s Current Report on Form 8-K as furnished to the SEC on April 12, 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 the Investor Update Call slide presentation. You should not consider Adjusted EBITDA in isolation or as a substitute for analysis of Zillow Group’s results as reported under GAAP.