



ZILLOW GROUP, INC. Q1 2016 EARNINGS – PREPARED REMARKS

May 3, 2016

RJ Jones, VP of Investor Relations:

Thank you. Good afternoon and welcome to Zillow Group's first quarter 2016 earnings conference call. Joining me today to talk about our results are Spencer Rascoff, Chief Executive Officer, and Kathleen Philips, 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. 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 May 3rd, 2016, 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 the call, we will discuss GAAP and non-GAAP measures. We will also discuss certain historical results on a reported and pro forma basis. Reported results were prepared in accordance with GAAP unless otherwise noted. 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 SEC filings. All year-over-year comparisons are pro forma unless otherwise noted or the context otherwise requires. We encourage you to read our earnings press release, as it contains important 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 income taxes.

This call is being broadcast on the Internet and is available on the Investor Relations section of the Zillow Group website, along with our earnings press release. A copy of management's prepared remarks has already been posted to our investor relations website. A recording of the call will be available after 8:00 p.m. Eastern Time today.

Today, we will open the call with prepared remarks. We will follow prepared remarks with live Q&A. During Q&A, we will answer questions asked via Twitter and take 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 for joining us on the call today to discuss our first quarter results.

The first quarter was an excellent one for Zillow Group. We reported better-than-expected revenue growth, as we began to see the benefits of our scale hit our financials. We're seeing a lot of momentum and strength in the fundamentals of the consumer- and industry-facing parts of our business.

Taking a look at the highlights of our results, total revenue for the first quarter was \$186 million, up 25% year-over-year on a pro forma basis excluding Market Leader, and beat the high end of our outlook by approximately \$7 million, with particular strength in our Premier Agent and Mortgage marketplaces. EBITDA for the first quarter was \$1.9 million and within our outlook range.

With the strength seen in our Q1 revenue, we are now raising our revenue outlook range by \$20 million for the full year, to a new range of \$825 to \$835 million. We aren't changing our full-year EBITDA outlook at this time. In a moment, Kathleen will walk through our financial results and outlook in more detail.

Turning now to an update on our strategic priorities:

Our first priority is to grow our audience of users, who will become clients of real estate professionals. It's been an amazing quarter with record-setting traffic and growing market share. During March, our peak traffic month of the first quarter, more than 166 million unique users came to Zillow Group's mobile apps and websites, up 22 percent year-over-year off an ever-increasing base. This was an all-time traffic record. Every one of our consumer brands, including our largest brands (Zillow and Trulia) are at or near record traffic levels and growing quickly. Top of the funnel traffic growth is important, but bottom of the funnel contact volume to our agent advertisers is critical. And on that metric, our Q1 results were excellent – leads to Premier Agents on Zillow and Trulia are up nearly 60 percent year-over-year and exceeded 4 million leads in the quarter for the first time ever.

During the first quarter, Zillow Group also achieved our highest traffic market share to date, with over 63 percent of the online and mobile audience in our category, according to comScore. That is a huge achievement, made even more impressive by the fact that our category as a whole has grown 55 percent over the last three years. The online real estate pie is growing very quickly, and our piece of that pie is growing even faster. You can find further evidence of this by looking at Google search data. According to Google Trends, more Americans now search for the word "Zillow" than for the term "real estate."

This trend is due to our continued product innovation, excellence in free marketing channels, amplified by our advertising. You may have seen the Zillow brand national ad campaign on broadcast and cable networks called "Home," which features people's real-life stories about what home means to them.

And, if you live in Manhattan, you cannot miss the latest StreetEasy campaign called “Find Your Formula,” which is prominently displayed in outdoor advertising, taxi-tops and subway stations. These campaigns are resonating with consumers and have been successful in driving home shoppers to our mobile and web platforms. Our outstanding products then keep these visitors coming back and help them become clients of our Premier Agents. We carefully track the efficacy of our offline advertising and its impact on traffic, leads to Premier Agents, and awareness among different user types. We continue to be pleased with our advertising’s effectiveness. In addition, our combined scale and multi-brand portfolio strategy have created significant efficiencies in our online advertising spend.

Our next priority is to grow our Premier Agent business, which achieved record revenue during the first quarter and beat the high end of our outlook.

Our Premier Agent advertising program focuses on attracting those agents who can capture maximum benefits from our platform, converting leads at a high rate and earning more commissions. At a recent gathering of our top Premier Agents in San Antonio, we announced several innovative features that will help the highest producing agents in the industry capture a greater share of transactions in their respective markets.

Among these features was the launch of team profiles, which gives agents the opportunity to associate themselves with their team while retaining an individual profile. As we have discussed before, agents increasingly are shifting to the team model as a way to effectively convert their flow of online leads into commissions.

We also launched a new suite of lead management tools that allow team leaders to assign online leads automatically to their team members and track results. Using this feature inside our free Premier Agent app, team leaders have the ability to see exactly how the buyer or seller was handled by their team members.

To help our Premier Agents better manage their advertising with us, we also launched a new shopping cart experience. Our agent advertisers now have a new way to buy their advertising through a self-serve process, which provides more flexibility and control around their advertising across Zillow and Trulia.

We are innovating quickly for our Premier Agent advertisers, and growing the ranks of the most advanced agents in real estate. In the next few years, we believe that high-performing agents and teams will accelerate their growth with us as more consumers search for homes and select their agents through Zillow and Trulia.

Now turning to our emerging marketplaces:

Our mortgage marketplace revenue this quarter exceeded our plans. We are seeing the impact of enhancements to our mortgage products and features, which enable consumers to find what they want more efficiently. This is leading to increases in the average revenue per loan information request, the number of mortgage shoppers, and additional contacts flowing to our lender advertisers.

Our mortgage marketplace has also benefited from low interest rates year-to-date, which drove increased refinance activity in addition to strong overall purchase performance. That having been said, most of our loan information requests are for purchase loans rather than refinance, which protects us from the inevitable rising rate environment which will likely negatively impact other online mortgage services.

In our rentals marketplace, landlords and property managers continue to embrace the direction we are taking with our products and features that promote their available rental units to the largest audience in the category. We have achieved all-time highs in usage, contacts and paying relationships, resulting in accelerated revenue growth. Rentals revenue for Q1 2016 is up over 100 percent year-over-year and tracking ahead of our expectations.

In our New York City marketplace, StreetEasy and our recently acquired brand, Naked Apartments, continue to extend their leading presence in New York. Product advances on mobile and brand advertising for StreetEasy have driven traffic to record levels, and significant revenue growth.

Our final priority is to continue to maintain our extraordinary company culture which attracts, retains and motivates incredible people to do their best work. Amongst our many competitive advantages, which include our massive audience scale and our widely recognized family of brands, the quality of our team stands above the rest. We have a culture of innovation that results in both consumer-facing features, which grow audience, and business model innovation, which drives revenue growth and sustainable advantage. We continue to win recognition as one of the top and most sought-out employers in the country.

To conclude, we are off to an excellent start in 2016. The media market opportunity in front of us in residential real estate, rentals, mortgages and in New York remains massive in the billions of dollars. We will continue to grow rapidly by creating the category-defining experiences for the consumer across our brand portfolio, attracting the largest audience, and providing professionals with the most effective way to reach them. As I've said many times before, advertisers follow audience.

With that, I will now turn the call over to Kathleen.

Kathleen Philips, CFO

Thank you, Spencer, and hello to everyone joining us on today's call.

As we get started, for reference, when discussing year-over-year comparisons of our first quarter financial results, we will compare 2016 GAAP results to our 2015 results on a pro forma basis unless otherwise noted or the context requires. I would like to remind everyone that our pro forma results in 2015 assumed the close of the Trulia transaction occurred on January 1, 2014, and do not include the impact of acquisition-related costs and restructuring costs, in addition to certain other adjustments. Note that our GAAP and certain pro forma financial results, along with our pro forma comparisons, have

been included in our first quarter 2016 financial results press release, which contains important information about how the pro forma results were prepared.

Now, let's dive into our results, starting with traffic.

In the first quarter of 2016, we attracted more than 156 million average monthly unique users to Zillow Group's mobile applications and websites, achieving a new record peak month of more than 166 million unique users in March. As a reminder, our unique user metric is a combined measure reflecting traffic across our consumer-facing brands, including Zillow, Trulia, HotPads and StreetEasy. Beginning next quarter, we will add in Naked Apartments.

Total revenue for the first quarter increased 14 percent year-over-year to \$186 million, from \$162.5 million in the same period last year. Excluding Market Leader from last year's results, total revenue increased 25 percent year-over-year.

Looking at our primary revenue category, marketplace revenue was \$169 million, representing an increase of 23 percent year-over-year. Excluding Market Leader from last year's results, marketplace revenue increased 37 percent year-over-year. Marketplace revenue now accounts for 91 percent of our total revenue, as compared to 84 percent during the same period last year.

Taking a closer look into our real estate subcategory, our first quarter revenue grew 34 percent year-over-year to \$152.5 million. As a reminder, this subcategory includes our Premier Agent advertising, agent services, dotloop, StreetEasy and rentals revenue.

Our Zillow Group Premier Agent advertising revenue increased 25 percent year-over-year to \$134.5 million in the first quarter, which exceeded the high end of our outlook range by \$2.5 million. The annualized run rate for our agent advertising business reached \$537 million at the end of the quarter, compared to \$432 million at the same time last year. This positive result was driven by the continuing trend of our highest-spending advertisers buying more impressions to expand their presence on our platform.

We ended the quarter with 91,878 advertiser accounts essentially flat as compared to the fourth quarter of 2015. For the first quarter of 2016, average revenue per advertiser, or ARPA, was \$487, increasing 40 percent year-over-year on a pro forma basis.

Sales to same agent advertisers, or those who have been on our platform for more than one year, grew by more than 56 percent compared to the prior year. Additional sales to existing advertisers made up 71 percent of total bookings in the first quarter. Year-over-year growth of the agent advertiser cohort that spends more than \$5,000 per month was 83 percent on a total dollar basis, and 74 percent in advertiser count. Churn in this cohort continues to be minimal. As a reminder, we will no longer report on advertiser count and ARPA in 2017. These metrics do not accurately reflect the performance of our business.

As we have seen before, more agent teams and independent broker agents represented by one account are buying advertising at much higher levels than the average. With the launch of our new team profiles product that Spencer described, we will have more visibility into this trend and continue to support the success of our advertisers who leverage a team model. Our strategy continues to accelerate the larger trend across the real estate agent population of higher producing agents taking market share from those who are less competitive.

Moving now to our mortgage marketplace, our revenue reached \$16.5 million, which represents a 65 percent increase year-over-year. The increase in mortgage revenue was primarily the result of an increase in our average revenue per loan information request due to product enhancements that allow us to monetize our mortgage products more efficiently. The number of loan information requests decreased 19 percent from the same period last year. This was driven by our strategic decision to improve the quality of loan information requests by asking consumers to provide more details before a loan information request is sent to a lender.

In our display category, revenue was \$17 million, a decrease of approximately 34 percent over the same period last year, and ahead of our expectations. Our intentional shift from traditional display revenue continues, as we focus on providing consumers with content-rich experiences that lead to valuable connections for our marketplace advertisers. Display revenue now accounts for 9 percent of total revenue, as compared to 16 percent during the same period last year.

Moving now from revenue to our expenses. Total operating expenses were \$234 million in the first quarter. The largest variances from our outlook were in legal costs; headcount-related costs including employee health claims; and sales commissions for new bookings for which the revenue will be recognized in future periods. Each of these was higher than expected and negatively impacted EBITDA.

With that, let's take a closer look at our operating expenses by line item.

Our cost of revenue during the quarter was \$16.5 million, or 9 percent of revenue.

Sales and marketing expense was \$98.8 million, or 53 percent of revenue. Our advertising investments for our brands were as expected, while our sales expenses increased by \$1.5 million due to higher sales volume.

Technology and development costs in the first quarter were \$64.4 million, or 35 percent of revenue, which was higher than internal forecasts, due primarily to lower capitalized wages.

General and administrative costs in the first quarter were \$53.8 million, or 29 percent of revenue, which was higher than our internal forecast. The increase in G&A is primarily related to legal costs from the News Corp. and NATIONAL ASSOCIATION OF REALTORS® litigation of \$15.7 million in the first quarter, which were nearly \$4 million higher than we expected.

A quick update on where things stand with respect to our defense of the litigation matter brought by News Corp. and the NATIONAL ASSOCIATION OF REALTORS®. We continue to work through the legal

process, and the court is considering our motions for summary judgment, which request that the bulk of plaintiffs' claims be dismissed. As we have noted before, we believe the claims in this case are without merit and that News Corp. and the NATIONAL ASSOCIATION OF REALTORS® claims for damages are baseless. We will continue to vigorously defend ourselves in this matter. In the meantime, we remain focused on the daily operations of our business and, as our Q1 results show, the fundamentals of our business are outstanding and unaffected by this litigation.

Moving on to our bottom line, GAAP net loss was \$47.6 million. GAAP first quarter 2016 basic and diluted net loss per share was 27 cents. On a non-GAAP basis, which excludes share-based compensation, acquisition-related costs and income taxes, basic and diluted net loss per share was 13 cents.

Our EBITDA for the quarter was \$1.9 million, or 1 percent of revenue, and within our outlook range.

Zillow Group ended the first quarter of 2016 with more than 2,400 employees and over \$500 million in cash and investments.

Now turning to our Zillow Group outlook for the second quarter and full year 2016. Our press release, which can be found on our investor relations website, contains all of our Q2 and full year 2016 guidance. I'll just take a moment now to point out some key items.

Second quarter 2016 total revenue is expected to be in the range of \$203 to \$208 million. Premier Agent revenue in the second quarter is expected to be in the range of \$146 to \$148 million. Display revenue is expected to be in the range of \$16 to \$17 million.

Our EBITDA for the second quarter is expected to be in the range of \$15 to \$20 million, or 9 percent of revenue at the midpoint of the range. Legal costs associated with the News Corp. and NATIONAL ASSOCIATION OF REALTORS® litigation for the second quarter are anticipated to be \$18 to \$20 million.

Turning to our full year 2016 outlook, we now expect our full year revenue to be approximately \$825 to \$835 million. We expect our Premier Agent revenue for the year to be in the range of \$595 to \$600 million, and we expect our display revenue to be in the range of \$58 to \$60 million.

Our full year EBITDA outlook remains unchanged, which we expect to be in the range of \$115 to \$125 million.

We now expect full-year depreciation and amortization expense to be approximately \$95 to \$100 million and share-based compensation to be an estimated \$105 to \$110 million in 2016. Legal expenses related to the News Corp. and NATIONAL ASSOCIATION OF REALTORS® litigation for the full year are anticipated to be in the range of \$50 to \$55 million.

In summary, our performance for the first quarter of 2016 was excellent. Top-line growth is accelerating ahead of our initial expectations, and we are starting to see the benefits of our scale as we execute on

the foundation we established for our long-term growth. We are excited about record revenue, traffic growth and the future for Zillow Group. We will now open up the call for questions.

After Question & Answer Session

Spencer Rascoff, CEO

Thank you very much for joining us today. As you can tell, we have a lot to be excited about in 2016 here at Zillow Group – accelerating revenue growth and extending our category leadership. We look forward to giving you an update on our progress in August.

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Zillow Group's first quarter 2016 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 our Current Report on Form 8-K as furnished to the SEC on May 3, 2016, 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 our business outlook, strategic priorities, and operational plans for 2016. Statements containing words such as “may,” “believe,” “anticipate,” “expect,” “intend,” “plan,” “project,” “will,” “projections,” “continue,” “business outlook,” “estimate,” “outlook,” 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 successfully integrate and realize the benefits of its past or future strategic acquisitions or investments; Zillow Group's ability to innovate and provide products and services that are attractive to its users and advertisers; Zillow Group's ability to attract consumers to Zillow Group's mobile applications and websites; Zillow Group's ability to maintain and effectively manage an adequate rate of growth; the impact of the real estate industry on Zillow Group's business; Zillow Group's ability to maintain or establish relationships with listings and data providers; the impact of pending litigation described in Zillow Group's filings with the Securities and Exchange Commission, or SEC; Zillow Group's ability to compete successfully against existing or future competitors; 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, 2015 as filed with the SEC on February 12, 2016, 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 certain pro forma financial results, Adjusted EBITDA and non-GAAP net loss per share, all of which are non-GAAP financial measures, or financial measures not prepared in conformity with accounting principles generally accepted in the United States (“GAAP”). These non-GAAP financial measures are not prepared under a comprehensive set of accounting rules and, therefore, should only be reviewed alongside results reported under GAAP.

We urge you to review our earnings press release as it contains important information about our financial results, including reconciliation tables and related information about these non-GAAP financial measures. The earning 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 our Current Report on Form 8-K as furnished to the SEC on May 3, 2016, 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.

The pro forma financial measures included in these prepared remarks, although helpful in illustrating the financial results of Zillow Group under one set of assumptions, are not true historical financial results. They are provided for informational purposes and do not attempt to represent Zillow Group’s actual financial condition if the February 2015 acquisition of Trulia had been completed on the applicable dates, or to predict or suggest future results.

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

Non-GAAP net loss per share excludes the impact of share-based compensation expense, acquisition-related costs and income taxes. This measure is not a key metric used by our management and board of directors to measure operating performance or otherwise manage the business. However, we provide non-GAAP net loss per share as supplemental information to investors, as we believe the exclusion of share-based compensation expense, acquisition-related costs and income taxes facilitates investors’ operating performance comparisons on a period-to-period basis. You should not consider this metric in isolation or as a substitute for analysis of our results as reported under GAAP.