ZILLOW GROUP, INC. Q4 AND FULL YEAR 2018 EARNINGS – PREPARED REMARKS
February 21, 2019

Co-Founder and CEO Rich Barton:

Thanks to everyone for joining us today. I see many familiar faces on the line, and I see a number of new people whom I hope to meet soon.

We'll turn to your questions shortly, but I wanted to take some time here at the top to share how I view the rapid evolution of Zillow Group down the funnel towards the transaction, and why we will win the race for Online Real Estate 2.0.

Fundamentally, we are following consumers who have been "uberized," and have grown to expect magic to happen with the simple push of a button. We've seen this in travel, ride-hailing, car-buying, shopping, streaming video, and more, and the time for real estate is now.

We know from the massive scale of our own monthly audience that almost everyone is in the market for a new place to live. Since we first turned on the lights with the Zestimate in 2006, we have been innovating to help movers turn their dreams into reality by empowering them with information and connecting them with the right real estate professionals. Yet many of these would-be buyers, sellers and renters stay put because the process of moving is daunting and scary. We are taking aggressive steps to remove the inherent friction that still exists in this complex, oft-messy, process-heavy industry, and "unstick" these ready-to-move dreamers.

This requires us to build on our strengths as the clear leader of Online Real Estate 1.0 and move down the consumer funnel to the transaction, leveraging the power of our brands, audience, data, content, technology, industry partnerships, service and culture of innovation. As a result, the Zillow Group that closed out 2018 is a very different company from where we started the year.

The launch of Zillow Offers in the second quarter and the acquisition of Mortgage Lenders of America in the fourth quarter gave us the foundation to enter home buying and selling and home loan originations -- both for ZO and ultimately to streamline the transaction for many buyers, sellers and real estate professionals. Adding real estate transactions and eventually seamless mortgages to the Zillow Group portfolio begins to position us well for the new frontier - and dramatically increases our TAM.

Buying and selling homes is not a new idea for Zillow Group. Lloyd, Spencer, the founding team, and I founded Zillow with the dream of making buying and selling a home radically easier than it was in 2005 when we got going. Many of us were shopping for new homes (triggered by rapid family expansion) and we marveled that 10 years after the launch of the graphical web, nothing had really changed in real estate. It was ripe for disruption. We already had helped rewire travel back in the late '90s when we founded and led Expedia, so we could recognize a pattern.

Our earliest thesis and experiments at Zillow involved attacking the obvious problems at the point of the transaction and answering the question for buyers and sellers alike: "What is that home really worth?" At first, we were enamored with the purity of the auction model as a perfect price discovery mechanism. By trial and mostly error, we found out that people didn't understand home auctions, and they certainly weren't ready to buy and sell homes on demand. However, in this process we discovered the Zestimate which became the backbone of our Zillow.com marketplace and launched us down the road of an advertising-based business model, where we added content, amassed a huge audience, and made money by connecting a small subset of our audience with professionals who wanted to help. Aside from helping us build audience, quite conveniently, the Zestimate has become a key competitive advantage for Zillow Offers, because almost every home seller comes to see her Zestimate. Now squint and see how it ideally and eventually becomes a robotically-generated live offer for your house. While the market wasn't ready to embrace a live bid and an ask on every home in 2005 when we used to evangelize this notion, a growing population of people certainly are today, and just as we've seen in other categories, we expect this to become normalized in the not-too-distant future.

So, we've returned to the excitement of our founding mission and are now innovating rapidly on the transaction. Zillow Offers is not just an experiment. We're already well on our way. Q4 results exceeded our expectations and we have line-of-sight to accelerating growth in the Q1. Today, we are live in seven markets and we already receive one Zillow Offer request every five minutes -- that's about $100 million in demand value per day. Our current estimate is we convert 3 to 4 percent of the offer requests we receive today, which we believe could add $20 billion in annual revenue in three to five years. And, ultimately, deliver 200 to 300 basis points of EBITDA margin, once we are at scale.

Given strong consumer response and promising metrics, we are investing in Zillow Offers for larger scale and expect to be in at least 14 markets by the end of this year. We know the mechanics and fundamentals of real estate transactions are vastly different from the media model, but these two businesses complement each other like peanut butter and chocolate. Additionally, we are transitioning our media business model to get much closer to the transaction, turning advertisers into partners, with whom we work closely to satisfy the high expectations of the "uberized" consumer we share.

Given that, let me now talk about Premier Agent, which is included in our Internet, Media and Technology segment.

With the consumer as our North Star, the investment in Zillow Offers complements (with an "e", not an "i") our commitment to our Premier Agents. Our PA partners are critical to Zillow Group for two key reasons.

First, we know most sellers will likely not choose to sell their house directly to us via Zillow Offers. Yet, it's our mission to get everyone seamlessly into a place they love and can afford. Our partner PAs are not only necessary in fulfillment of this mission, they are fundamental. The same heightened consumer expectations of the on-demand economy are at play in PA, as well. Our challenge is to rapidly innovate on software, business model, and partner selection to ensure that our consumers have a delightful experience. There are miles to go before we sleep in this arena… and it's motivating.

Second, PA is our most established revenue stream and generates the cash flow that enables us to take a big swing on Zillow Offers as well as Mortgages -- which, by the way, we view as "payments," just like payments are integrated into Uber.

To explain what's going on in PA right now, I'll note that we made some significant changes to the PA model in mid-2018 designed to improve lead quality and agent response rates - and the roll out didn't go as well as we intended. We allowed price to get pushed too hard with the auction-based model, and we miscalculated how important lead volume, even the less transaction-ready "nurture leads," were to many of our PAs when we started more screening and filtering. This and some negative macro-conditions caused elevated churn. We have made modifications to remedy the situation and the churn rate is normalizing. Our PA response rate to a lead is up, which is great for consumers, and our nurture leads are up, which is great for agents. And PA conversion is trending up, which is great for everyone. That said, our PA growth rate was disrupted in Q4 and it will take some time to recover from the reduced Q4 MRR, as you will see in our outlook.

At the same time, we are testing a success-based business model for PA in a few areas called Flex. With Flex, we work with top-performing agents, teams and brokers who use Zillow Group software and tools to build a partnership relationship vs. an advertising one, where incentives are more aligned and we share in the risks and rewards. In Flex, there are no upfront fees for agents; Zillow Group is simply paid a success fee only when a Premier Agent closes a deal. Early indications are that PAs like this mutually beneficial model and we're seeing encouraging conversion rates. But, it's early.

As we continue to evolve PA, we will be working closely with our agent and broker partners to do so. The PA programs currently underway bring Zillow Group closer to the transaction and deliver a more seamless, real-time experience and service levels that today's on-demand consumers want and expect from the leader.

2019 will be an important transitional year as we educate current, lapsed and new PAs about the mutual benefits of the new programs. Ultimately, the shift from advertising to a partnership model increases our agent-driven TAM considerably. Today, there is roughly $87 billion in commissions processed annually, but our PA revenue is just 1 percent of that. We believe the value we add is much larger, and expect to realize a three-to-five -year doubling of the IMT business, which includes PA.

From the beginning of Zillow Group, we've had the benefit of operating a unique, triangle-like executive framework that includes myself, Spencer and our co-founder Lloyd Frink. For the first 5-plus years, I was CEO and then passed the baton to Spencer. Lloyd and I have shared offices in ZGHQ Seattle and have always been active partners, deeply involved in the strategy and operations of the company. As we've been working toward transforming Zillow Group to be the winner in online Real Estate 2.0, and after careful consideration and many discussions, we've collectively decided it's time to turn our leadership triangle on its side and shuffle our seats. As I return as CEO, co-founder Lloyd Frink has assumed my previous title of executive chairman, and Spencer Rascoff will step out of the day to day but continue to be an active and influential leader in our future success as a member of the Zillow Group Board of Directors. This is a smooth leadership transition.

I just want to pause a minute to acknowledge Spencer and his tremendous work and leadership to date. I first met Spencer more than 15 years ago in 2003, when Expedia acquired Hotwire, which Spencer also co-founded. I knew from the moment I met him he'd be a great CEO. He's worn many hats at Zillow Group, including CMO, CFO (those were at the same time, by the way, which saved us a boatload in marketing expense in our early years) and then COO before taking over as CEO from me in 2010. He's an indefatigable and committed leader and a huge culture carrier. Under his CEO leadership, we went from private to public; we grew revenue from $30 million to $1.3 billion; we acquired 15 companies; we grew from 200 to 4,000 employees; we repeatedly won "best places to work" awards; and our brands have become household names. It's hard for me to express the depth of my gratitude for his innumerable contributions, and what is still yet to come. Thank you, Spencer.

I know Spencer wants to say a few words.

Co-Founder Spencer Rascoff:

Thanks a lot Rich. You're right – I've played a lot of roles here at Zillow Group, and I'm excited for my next one. We are at a transformative time at ZG – the world is finally ready for the seamless real estate transaction, and no company is better positioned to deliver. Rich, Lloyd and I have been partners since the company's founding in 2005, and now feels like the right time to turn the triangle of partnership on its side.

When I look at the company we've built during my nine years as CEO, I'm incredibly proud. Our team and culture are world-class, and helping Rich continue to build that culture will be among my top priorities as board director. I'm grateful for the relationships I've built with employees, and for their trust in me. I've also built relationships with many of you from the investment community, and I'm grateful to our shareholders who helped support our company's growth so far. I will remain a large shareholder of Zillow Group and I look forward to helping support the company's next stage of growth from the boardroom. Thanks to all of you. Back to you, Rich.

Rich Barton:

Thank you for everything, Spencer, and I look forward to both of our new roles as we plot the course ahead.

This is an incredible time to put my CEO hat back on. Zillow Group is like a start-up again, but a really well-positioned one, with $1.3 billion in revenue, a huge engaged audience, and the leading brands in the industry, including Trulia, StreetEasy, Hotpads, OutEast, dotloop, and our flagship, Zillow.

Excitement runs high at Zillow Group right now. We're reconnecting with our original mission and we sense how meaningful this opportunity is for consumers, partners and shareholders alike. I'm excited to talk more with you about all the exciting things underway at Zillow Group and the opportunities we see today… and on the horizon.

Before we open up to questions, I want to re-introduce Allen Parker, who joined as Zillow Group CFO in November from Amazon where he spent 13 years and was most recently the vice president of finance for Amazon Device and App Store. This is the first ZG earnings call for both of us (so go easy!), but I thought it might be helpful to offer a little perspective on our shared approach to earnings and financial reporting. You'll see in our press release that in addition to Q1 outlook, we included our current target estimates of our business looking out three-to five years. We feel at this time it is important to share our view from where we sit today, given the investments we're making.

Also with me today are Jeremy Wacksman, who wears several hats including co-president of Zillow Offers, and Greg Schwartz, who heads our Internet, Media and Technology Segment, which includes PA, Rentals, and Mortgages. I've been working closely with both for over 10 years.

With that, operator we'll open up to questions.

[Q&A Session]

Rich Barton:
Thanks again for your time today.

As we've discussed, we are in the middle of a critical transformation that is reshaping our company, and redefining the rules of real estate as we know them.

By moving into transactions, Zillow Group will cover the entire consumer home shopping funnel, top to bottom, giving today's on-demand consumers a full spectrum of options to shop, engage and transact on their terms. By transitioning our relationship with agents from advertisers to real partners we better align our mutual goals and incentives, and cooperate to delight our shared customers. This all makes us well positioned to "unstick" those shoppers ready to follow their dreams, and get into the place they love and can afford.

Finally, just to restate, I know Zillow Group's aggressive expansion has not just evolved our business model, it's affected your Excel models. We've added a high revenue, low margin business that requires large investment and distributed operations to our proven high margin media business that you know and love, and that can be unsettling, especially, when our execution on the core business has been bumpy. It was unsettling for us, initially, as well. But we came to believe the prize was quite large and, further, it was a strategic necessity. This is where consumers are heading and they'll ultimately get what they want, with or without us. We decided to lead them there. Can you imagine if Netflix had just ignored streaming?

You can probably tell I am excited. I hope you are. Thank you in advance for keeping an open mind and for giving us a chance to show you what we see. We value your counsel and I look forward to our upcoming conversations.

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Zillow Group's fourth quarter and full year 2018 earnings press release is available on the Investor Relations section of the Zillow Group website at http://investors.zillowgroup.com/quarterly-results. It is also included as Exhibit 99.2 to its Current Report on Form 8-K as furnished to the SEC on February 21, 2019, which is available on the Investor Relations section of the Zillow Group website at http://investors.zillowgroup.com/financial-information/sec-filings 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 that involve risks and uncertainties, including, without limitation: long-term business and financial targets for the next three to five years and other future years; the performance of Premier Agent advertising, including churn rates and revenue, in 2019 and beyond; as well as statements regarding our business outlook for 2019, strategic priorities, and operational plans for 2019. Statements containing words such as “target,” “may,” “believe,” “anticipate,” “expect,” “intend,” “plan,” “project,” “will,” “projections,” “continue,” “business outlook,” “forecast,” “estimate,” “outlook,” “guidance,” or similar expressions constitute forward-looking statements. Forward-looking statements are made based on assumptions as of February 21, 2019, and although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee these results. 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 general economic conditions; Zillow Group’s ability to execute on strategy; 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 investment of resources to pursue strategies that may not prove effective; Zillow Group’s ability to compete successfully against existing or future competitors; changes in interest rates and other similar factors; 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 information security systems, 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 is 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 Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2018 and in Zillow Group’s Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC, 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 forecasted Adjusted EBITDA, which is a non-

GAAP financial measure not prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). We have not provided a quantitative reconciliation of forecasted Adjusted EBITDA to forecasted GAAP income (loss) before income taxes within these prepared remarks because the company is unable, without making unreasonable efforts, to calculate certain reconciling items with confidence. These items include, but are not limited to: income taxes which are directly impacted by unpredictable fluctuations in the market price of the company's capital stock; depreciation and amortization expense from new acquisitions; impairments of assets; and acquisition-related costs. These items, which could materially affect the computation of forward-looking GAAP income (loss) before income taxes, are inherently uncertain and depend on various factors, many of which are outside of our control.

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. The exclusion of certain expenses in calculating Adjusted EBITDA facilitates operating performance comparisons on a period-to-period basis.

Our use of Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not consider the potentially dilutive impact of share-based compensation;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA does not reflect impairment costs;
- Adjusted EBITDA does not reflect acquisition-related costs;
- Adjusted EBITDA does not reflect interest expense or other income;
- Adjusted EBITDA does not reflect income taxes; and
- Other companies, including companies in our own industry, may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, you should consider Adjusted EBITDA alongside other financial performance measures, including various cash flow metrics, net loss and loss before income taxes and our other GAAP results.