Zillow Group, Inc. Operational Update – Prepared Remarks
April 14, 2015

Raymond Jones, VP of Investor Relations and Competitive Intelligence:

Thank you. Good morning and welcome to an operational update from Zillow Group. Joining me on the call today is Spencer Rascoff, chief executive officer.

During this call we will make forward-looking statements which are provided for informational purposes. Although we believe the expectations reflected in the forward-looking statements are reasonable, we can't guarantee that these future results will be achieved, and actual results may differ materially. Please consider the risk factors that could cause our results to differ materially from those discussed on this conference call. These risk factors are described in Zillow's Annual Report on Form 10-K and in our other filings with the SEC.

The date of this conference call is April 14th, 2015, and any forward-looking statements that we make today are based on the assumptions as of today. We undertake no obligation to update these statements as a result of new information or future events.

In our remarks, the non-GAAP financial measure Adjusted EBITDA may be referred to simply as EBITDA, which excludes other income, depreciation and amortization, share-based compensation, acquisition-related costs, restructuring costs, interest expense, and income taxes.

This call is being broadcast on the Internet, and is available on at investors.zillowgroup.com. A recording of this call will be available after

12:00pm Eastern time today. Please note that after the call, a copy of today's prepared remarks will also be available on our website.

I will now turn the call over to Spencer.

Spencer Rascoff, CEO:

Thank you for joining me today for an update on our progress since the formation of Zillow Group.

I last spoke to you on February 18, the day after our acquisition of Trulia closed. A lot has happened in just those eight short weeks, and it's time for an update. This is not an earnings call – it's an operating update call. We'll host our first quarter earnings call in mid-May, when we will issue formal earnings guidance.

We bought Trulia because operating multiple, leading, consumer brands will allow Zillow Group to achieve huge audience scale and provide cost savings and efficiencies. I am more convinced than ever that this is the right strategy, which will achieve tremendous long-term scale and a longer term target operating model of EBITDA margins above 40 percent.

The work we are doing this year lays the foundation for an incredibly bright 2016 and 2017. However, 2015 is a transition year and we're trending a couple quarters behind where we'd like to be, due to the protracted FTC approval process which only ended two months ago. Specifically, we're expecting pro forma revenue around $690 million for full year 2015, of which Market Leader is about $40 million; and EBITDA in the range of $80 - $85 million for the entire Zillow Group, exiting the year with a Q4 margin of over 20 percent. These pro forma revenue and EBITDA estimates assume the acquisition of Trulia would have closed at the beginning of 2015.

The structure of this call is that: first, I'll tick off the progress we've made across each of our key integration areas, including our incredible success in achieving listings independence over the last couple of months; second, I'll address Market Leader; and third, I'll explain how this all rolls up into our overall financial results. I'll then take questions.

OK, so how's it going?

Let's start with rentals - Zillow Group now powers rental listings on Trulia on desktop, mobile apps and mobile web. And Zillow Group is now selling Zillow and Trulia advertising on a combined basis to apartment buildings. By replacing the partner that used to power Trulia rentals, we forego some short-term revenue but create a significantly better consumer experience on Trulia. And the added scale from Trulia's rental lead volume gives Zillow Group's rental sales team the scale we need to really go after the huge rental advertising TAM.

In mortgages, it's the same story as with rentals. We have completed the product integration on desktop already, and mobile web later this week, so that Zillow Group is powering Trulia's mortgage rate tables and purchase and refinance products. Zillow Mortgages will launch inside of Trulia's mobile apps in the next few weeks. And Zillow Group is already selling mortgage advertising on a combined basis across both brands.

Moving from mortgages to display media, we have integrated the sales teams under Zillow Group and are already selling display ads for both brands under one combined sales team. The integration work to combine our ad servers and other back-end display media technology will take several more months and will eventually result in additional time efficiencies, but the benefits of increased scale and a smaller combined media sales team are already in effect. And just another point on display, while I'm on the topic: we have removed a number of display ad positions from Trulia to offer a better consumer experience and bring more prominence to marketplace ad positions, namely agent and mortgage advertising. This is the right decision for the long term, but it will cost us some revenue and EBITDA from Trulia in the short term.

Turning from display to our New York marketplace where, same as with Zillow, StreetEasy now powers Trulia's real estate listings in Manhattan, greatly improving the listings accuracy and consumer experience for home shoppers in New York.

And now, organizationally: we have made great strides in successfully bringing these two companies and cultures together in eight short weeks with minimal drama and almost no lost productivity. The teams are working well together and, quite frankly, my greatest fear going into this acquisition – that organizational thrash would set us back – has just not happened. I'm really proud of the way the teams have come together to quickly roll out the integrations in rentals, mortgages, display, and New York listings as I've just talked about. During this time, we have had many incredibly fruitful meetings comparing best practices between Trulia and Zillow on functional areas as diverse as SEO, email marketing, SEM, multi-variate testing, and web design. It has been illuminating for the teams at these two companies that spent the last nine years competing to gain access to their counterparts and share notes. Much has been learned, and both brands' products (and, we believe, business results) will benefit. Further, our finance, HR, legal, IT ops and other shared services have all been substantially integrated. We have already successfully integrated dozens of productivity tools (like Concur, Hipchat, our corporate intranet, Workday and other HR systems). In M&A deals at this scale, it usually takes quarters to accomplish what we have done in weeks. I know these details probably sound unimportant to outsiders, but these are the things that distract and slow down innovation at many companies after big acquisitions. On the contrary, the full Zillow Group is operating at a very high level and is moving much faster than I anticipated.

With that, I'll close out the Trulia integration section with the two biggest items: listings acquisition and agent advertising.

It was just last week that we ended our connection with News Corp's ListHub, the third party intermediary that historically has provided Zillow and Trulia with many of our listings. We announced this separation in January and since then had been preparing for a transition that we anticipated could be very rocky. On the contrary, things have gone much better than we ever expected. Brokerages, agents and home sellers explicitly want their listings on Zillow and Trulia, as well as our network-powered sites. As a result, we have established direct feed relationships with hundreds of MLSs since January. Zillow and Trulia now have more active listings than we would have had if the News Corp contract had not ended. This is the most concrete example of the benefit of the increased scale from our combination with Trulia, and it puts us in a much stronger position strategically, as we are no longer dependent on a competitor for listings.

In short, we did it. We were pretty confident that we'd get there eventually, but the team did a stellar job these past few months and now nearly every major MLS in the country is sending listings directly to Zillow Group. As such, we're confident termination of our agreement with News Corp will not materially impact our revenue in 2015.

And finally, I'll conclude this section with a discussion of our agent advertising products. We have already successfully combined our agent ad sales teams into one, with three sales centers in Seattle; Irvine, California; and Denver. Although we've integrated the teams organizationally, Denver is still just selling Trulia and Irvine and Seattle are still just selling Zillow. Our engineering teams in San Francisco, Seattle and Irvine are now working furiously to integrate our agent ad products into one platform. It's quite complicated work because we need to combine so many core pieces of our products – our agent list on both sites on desktop and mobile; our featured listings ads on both sites; our agent profiles and review systems; and our lead management software where agents log in to see their leads. And eventually, our listings infrastructure will also be added to this list so agents can manage listings seamlessly across all our brands. I'm extremely pleased with how the work is progressing here. We will complete it by the end of 2015, which will position Zillow Group extremely well going into 2016. This is my number one priority.

In the meantime, Trulia's agent ad sales are challenged because advertisers have been unsure of its future, in part due to the prolonged FTC review. At closing, we deliberately reduced the size of the Trulia agent ad sales team, shutting down the San Francisco inside sales office, to set the team up to be the right size for when the agent ad products are integrated with Zillow by the end of the year. But this leaves the team shorthanded in the near term.

To address higher Trulia agent churn, we recently made a few changes to Trulia's agent ad products - including moving to exclusive agent contacts (also known as "one-check") - to align the ad product with Zillow and provide what we believe is a better consumer experience. We also will integrate the pricing of agent ad products on Trulia and Zillow shortly. As a result, we expect to see improved agent ad sales and retention across both brands.

In addition to the near-term changes we've made to Trulia's agent ad products, we are working hard to reignite Trulia's consumer audience growth, in particular organic traffic from email, SEO, PR and product innovation. We had an important step in this direction recently with the launch of Trulia's collaboration feature, and we feel very good about the product team and their roadmap. We will be spending less money advertising Trulia in 2015 than in 2014, and focusing deeply on organic and sustainable traffic channels.

Let me now talk about Market Leader for a moment.

While we are supporting the Market Leader products for existing customers, we are no longer actively selling Market Leader's advertising or CRM products to new clients, and we are evaluating how Market Leader fits into Zillow Group. We are investigating a variety of possible scenarios and don't have any specific plans to announce right now. But to facilitate better investor visibility, we have decided to share our annual pro forma revenue projection for Market Leader because we expect to transition its various products and technologies either to our partners or to other Zillow Group product offerings by the end of 2015. As I said, we expect Market Leader-related revenue will be approximately $40 million for full year 2015 on a pro forma basis.

So that's how things are going. Overall, I'd give us a very good report card for the first eight weeks post-closing, especially considering that we overcame the listings situation gracefully at the same time.

So how does this all roll up into our 2015 financial results? Zillow Group has a huge long-term opportunity ahead, but we have made some decisions to establish our foundation for growth that will impact our results in the near term. Examples include reduced display media revenue and profit on Trulia from fewer ad placements; reduced Trulia rentals revenue in the near term from ending their relationship with a rev share partner and turning rentals over to Zillow; and challenges facing Trulia's agent product offerings due to advertiser uncertainty.

We have accomplished a ton in the last eight weeks – on day one, we successfully rightsized our company and reduced our expense base by removing more than 350 duplicative staff in sales and support areas. We reorganized our 2,000 person company to execute a brand portfolio strategy, and created the foundational "Zillow Group" shared services for all support and industry-facing functions. We then successfully integrated key product areas. We also achieved listings independence by signing hundreds of MLSs to direct feeds. And most importantly, we unified our entire company around our shared mission of consumer empowerment and aligned our remarkable employees towards the massive market opportunity ahead of us. Advertisers follow audience, and the $13 billion[i] in advertising spent in and around real estate will eventually move online to the media brands with the largest audience, especially on mobile.

These remain early days for us, and we have much to look forward to as we continue on our mission to be the world's largest and most vibrant home-related marketplace.

With that, I'll open it up to your questions.

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[i] Borrell Associates' February 2015 publication of "2015 Outlook: Real Estate Advertising"