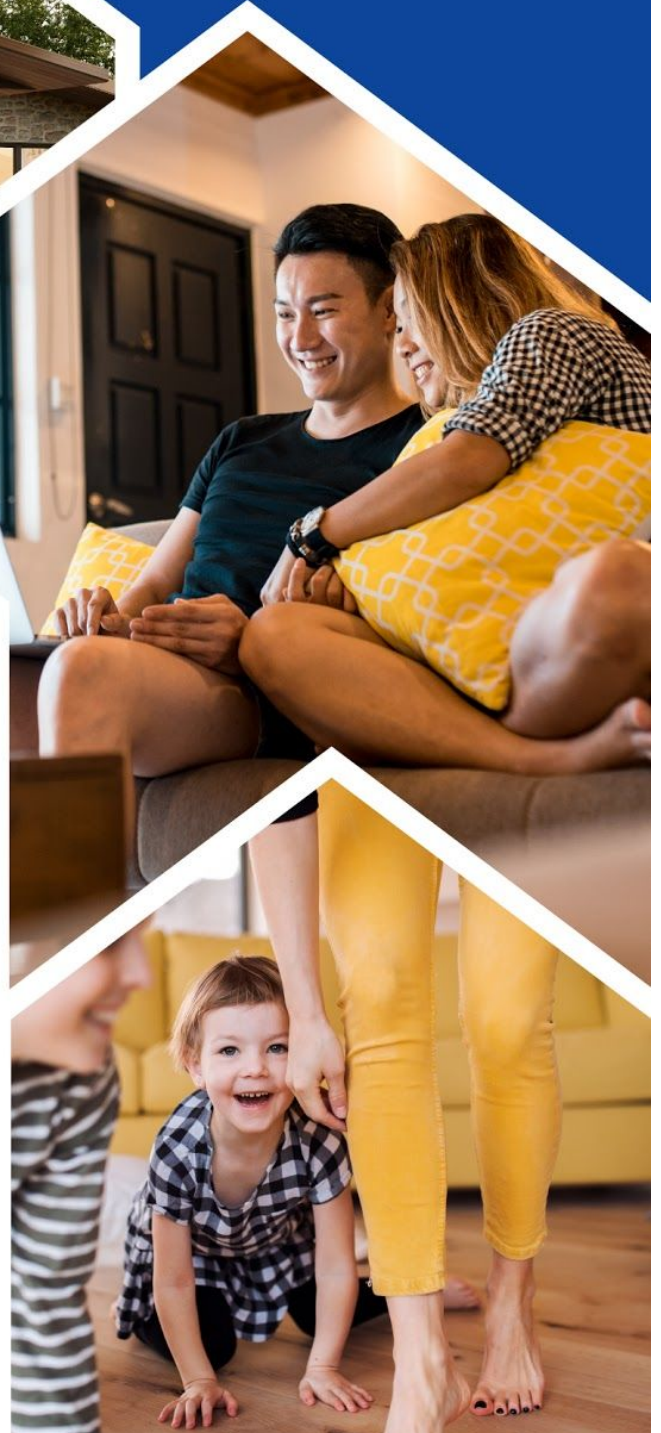


ZILLOW[®]GROUP



Q3.2019

Shareholder Letter

Dear Fellow Shareholders:

We're pleased to report our third quarter results that reflect our focus on execution as we work to transform the real estate transaction to deliver a seamless, integrated experience for our customers.

We are making traction in evolving Zillow from the 1.0 category leader, where people turn to "search and find" real estate data and connect with trusted professionals, to Zillow 2.0, where we leverage our core business to help people buy, sell, rent and borrow through advanced technology and streamlined processes and services.

Our results demonstrate improved performance in our Premier Agent business, great progress in our Homes segment, and effective cost discipline across segments as we continue to lay the foundation for achieving our long-term targets.

Q3 & Recent Highlights:

- Total Q3 consolidated revenue more than doubled year over year to a record \$745.2 million, exceeding the high end of our outlook.
- Traffic to Zillow Group mobile apps and websites reached an all-time high with average monthly unique users up 5% to 195.6 million. Visits exceeded 2.1 billion, up 11% year over year.
- IMT segment revenue and Adjusted EBITDA both exceeded the high end of our outlook, and IMT segment margin improved over Q3 2018, reflecting focused cost control and continued operating leverage from our scale and leadership.
- Premier Agent revenue grew year over year and exceeded the high end of outlook.
- Homes segment revenue and Adjusted EBITDA both exceeded our outlook.
- Zillow Offers is now available in 21 markets, adding a record eight markets in Q3. During the quarter, we sold 1,211 homes and purchased 2,291 homes, ending the quarter with 2,822 homes on our balance sheet.
- We ended the quarter with a strong cash position following our convertible debt offering in September, and we bolstered our operational liquidity by closing an additional non-recourse credit facility in October.

Key Highlights

CONSOLIDATED REVENUE:
\$745.2 Million
 117% YoY growth

CONSOLIDATED GAAP NET LOSS:
(\$64.6) Million

CONSOLIDATED ADJUSTED EBITDA:
\$15.8 Million

AVERAGE MONTHLY UNIQUE USERS:
196 Million

VISITS:
2.1 Billion

Third Quarter 2019 Results

Consolidated Q3 revenue was \$745.2 million, driven by continued growth in our Homes segment and improved performance in our Premier Agent business. GAAP net loss for the quarter was \$64.6 million, or 9% of revenue, which was a sequential improvement over Q2. Consolidated Q3 Adjusted EBITDA exceeded the high end of our outlook at \$15.8 million, or 2% of revenue¹, driven by increased operating leverage.

INTERNET, MEDIA & TECHNOLOGY SEGMENT RESULTS

Internet, Media & Technology ("IMT") segment revenue increased 7% year over year to \$335.3 million in Q3, exceeding the high end of our outlook. The growth was fueled by Premier Agent retention trends that have normalized over the course of this year. IMT segment GAAP income before income taxes was \$42.1 million, or 13% of segment revenue for Q3 2019, and IMT segment GAAP income before income taxes was \$6.3 million, or 2% of segment revenue for Q3 2018, representing more than one thousand basis points of margin expansion.

IMT segment Adjusted EBITDA was \$91.1 million, or 27% of segment revenue, marking nearly 320 basis points of margin improvement over Q3 2018. Focused cost management and increased operating leverage combined with solid Premier Agent revenue performance resulted in IMT segment Adjusted EBITDA approximately \$10 million above the high end of our outlook range.

IMT segment GAAP income before income taxes was \$43.8 million, or 5% of segment revenue for the nine months ended September 30, 2019, and IMT segment GAAP loss before income taxes was \$0.2 million for the nine months ended September 30, 2018, or less than 1% of segment revenue, representing margin expansion of 460 basis points. The increase in IMT segment GAAP income before income taxes is not meaningful on a year over year percentage basis.

For the nine months ended September 30, 2019, we expanded IMT segment Adjusted EBITDA margin by 240 basis points and grew IMT segment Adjusted EBITDA by 19% year over year.

IMT Highlights

SEGMENT REVENUE:

\$335.3 Million

7% YoY growth

SEGMENT INCOME BEFORE
INCOME TAXES:

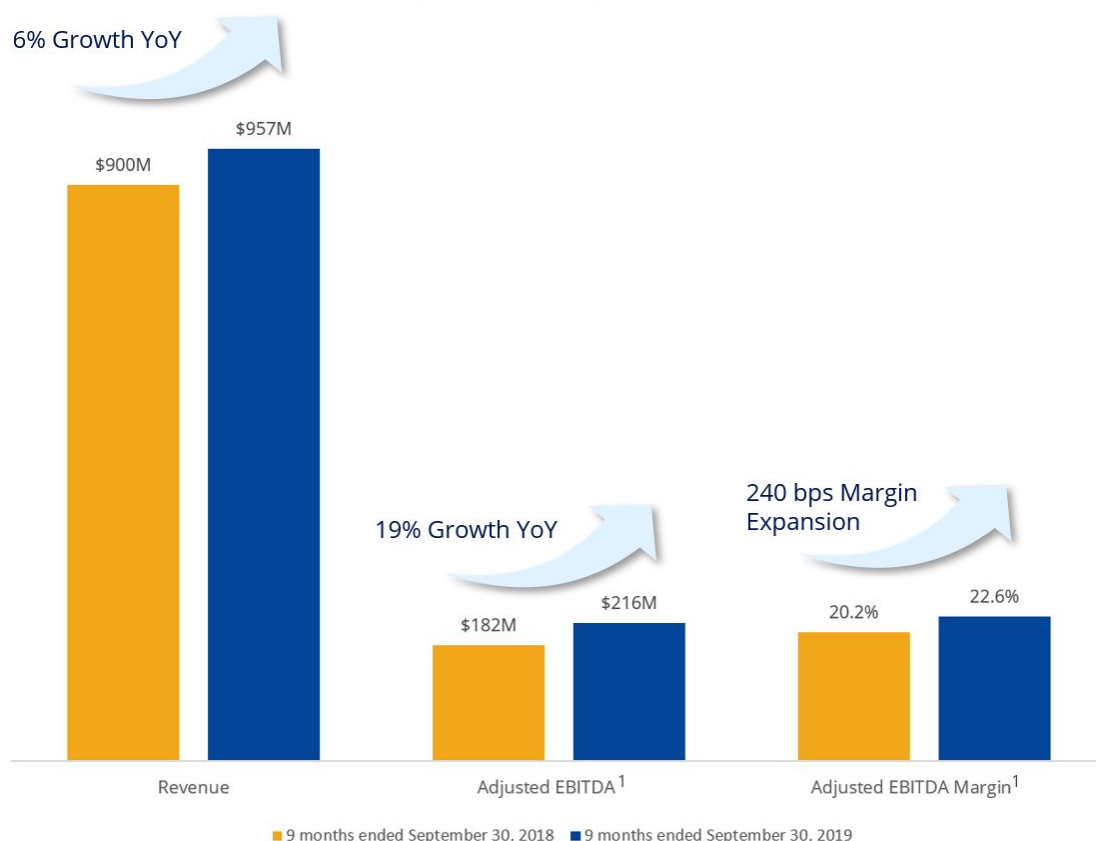
\$42.1 Million

SEGMENT ADJUSTED EBITDA:

\$91.1 Million

¹ Adjusted EBITDA and segment-level Adjusted EBITDA are non-GAAP financial measures; they are not calculated or presented in accordance with U.S. generally accepted accounting principles, or GAAP. Please see the below sections "Use of Non-GAAP Financial Measures" and "Adjusted EBITDA" for more information about our presentation of Adjusted EBITDA and segment-level Adjusted EBITDA, including a reconciliation to the most directly comparable GAAP financial measure, which is net loss on a consolidated basis and income or loss before income taxes for each segment, for the relevant period.

IMT Segment Margin Expansion



¹ IMT segment Adjusted EBITDA is a non-GAAP financial measure; it is not calculated or presented in accordance with GAAP. Please see the below sections "Use of Non-GAAP Financial Measures" and "Adjusted EBITDA" for more information about our presentation of IMT segment Adjusted EBITDA, including a reconciliation to the most directly comparable GAAP financial measure, which is loss before income taxes for the IMT segment, and a calculation of IMT Segment Adjusted EBITDA Margin and year-over-year growth.

Premier Agent

Our Premier Agent business delivered solid results in Q3. Retention rose year over year, and both customer and agent satisfaction has improved because of the mechanisms we have put in place over the last year. Demand for leads remained strong, contributing to \$240.7 million in Premier Agent revenue, an increase of 3% year over year. Excluding the impact of Flex test markets, Q3 Premier Agent revenue grew 5% year over year. This is reflected in the chart on the next page, which presents a "same-store sales" view of Premier Agent market-based pricing ("MBP") monthly recurring revenue ("MRR") year-over-year growth as of the end of each quarter. This view adjusts for the markets that have already transitioned or will transition to the Flex pricing model by the end of 2019 and demonstrates the reacceleration of core "same-store" MBP MRR in Q3. We expect that this favorable trend will continue in Q4.



Premier Agent MBP Monthly Recurring Revenue Growth (Excluding Flex Markets)



As a reminder, in Flex, an agent pays Zillow a “success fee” only after they close a deal with a Zillow lead. With the transition of Phoenix and Atlanta in Q4, combined with the four markets in Connecticut and Colorado that converted earlier this year, we estimate these Flex tests represent approximately 5% of total Premier Agent MRR as we exit 2019.

At this time, we do not have any additional markets scheduled for conversion to Flex. While we believe the Flex pricing model can ultimately deliver better experiences and results than our MBP lead-generation model because our incentives are aligned with our agent partners to best serve our shared customers and close more deals, we require more time to validate our financial assumptions. Should we decide to roll out Flex to additional markets, we will be transparent with our shareholders about the geographies we’re targeting, the timelines for each, and the revenue trends we expect compared to our MBP model based on the performance of our tests. Regardless of the Premier Agent model, our primary success measures remain the same. We are focused on customer satisfaction, revenue and profit yield per lead.

The health and strength of our Premier Agent business is foundational to the success of Zillow 2.0. As we expand our services down the funnel to the transaction level, we expect a large portion of our customers will continue to prefer the assistance of a Zillow Premier Agent. By partnering with the most productive, customer-service-focused agents, we believe we will deliver high value to our customers, and to our shareholders.

Rentals

Rentals revenue grew 19% year over year to \$44.4 million. We continue to innovate and build tools that move us closer to the rental transaction and are pleased with our continued execution within this marketplace.

Other Revenue

Other revenue, which includes new construction, display and other advertising and business technology solutions for real estate professionals, grew 15% year over year to \$50.2 million.

HOMES SEGMENT RESULTS

We continue to see strong demand in our Homes segment. Our Zillow Offers business allows consumers to explore simpler and easier alternatives to buy and sell homes. Homes segment revenue in Q3 was \$384.6 million, a 55% sequential increase from Q2, exceeding the high end of our outlook. As a reminder of how fast our Zillow Offers business has grown, in Q3 of last year we reported just \$11.0 million in Homes segment revenue.

During Q3, we purchased 2,291 homes, sold 1,211 homes and ended the quarter with 2,822 homes on our balance sheet. More than 80,000 homeowners requested an offer from Zillow in Q3. We continue to attract the vast majority of our customers through our Zillow-owned and -earned channels, including through our mobile apps and website, news articles, social media and word of mouth.

Zillow Offers now operates in 21 markets nationally. Q3 was our most aggressive quarter for market expansion to date, in which we opened eight new markets, or roughly one every two weeks. In Q4, we plan to launch Zillow Offers in the Los Angeles market, which is the second largest housing market in the U.S. with about 2.5 million housing units. The service is already available in Riverside and San Diego counties, and adding Los Angeles makes this new way of selling available across a large portion of Southern California.

Homes Highlights

SEGMENT REVENUE:

\$384.6 Million

55% QoQ growth

SEGMENT LOSS BEFORE
INCOME TAXES:

(\$87.9) Million

SEGMENT ADJUSTED EBITDA:

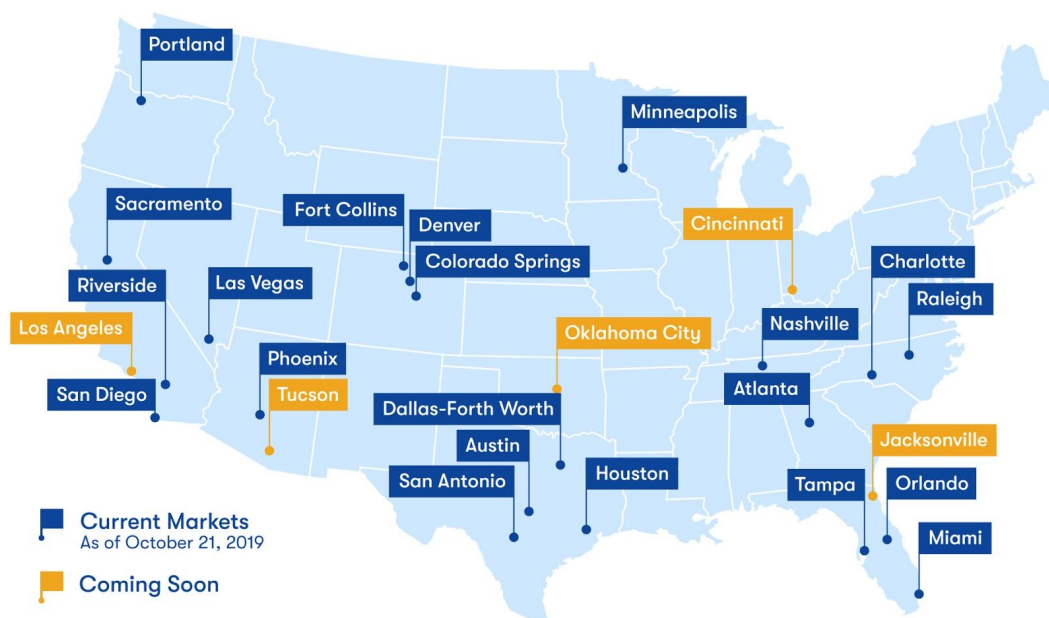
(\$67.8) Million

HOMES BOUGHT: HOMES SOLD:

2,291 1,211



Current Markets + Coming Soon



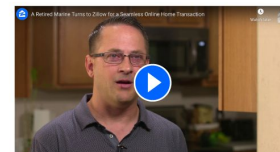
During Q3, Homes segment gross profit was \$13.8 million, and average per home gross profit was \$11.4 thousand². Average return on homes sold before interest expense was within our expected range of plus or minus 200 basis points. We remain comfortable with this range for the time being, as our business is in the early stages of development. Once we achieve scale, however, we expect to deliver an average return on homes sold before interest expense of 400 to 500 basis points per home, and to achieve a Homes segment Adjusted EBITDA margin of 200 to 300 basis points. As a reminder, these estimates exclude expected additional earnings from adjacent business lines, such as mortgage origination.

While still very early, we are encouraged by the positive feedback from our Zillow Offers customers and the demand we're seeing for a more efficient, integrated transaction experience. Click the link to the right to see Tim's story of his recent move in which he took advantage of Zillow Offers, Zillow Home Loans and a Zillow Premier Agent.



Customer Success Story:

A retired marine turns to Zillow for a seamless online transaction:



[Click here to see Tim's story](#)³

Third Quarter 2019 Homes Unit Economics Exhibit

	Total	Average Per Home
Homes sold	1,211	
Homes revenue	\$384,626,000	\$317,610
Operating costs:		
Home acquisition costs*	347,844,000	287,237
Renovation costs*	15,449,000	12,757
Holding costs*, **	4,634,000	3,827
Selling costs	16,835,000	13,902
Total operating costs	384,762,000	317,723
Return on Homes Sold Before Interest Expense***	(136,000)	(113)
Interest expense*, **	5,708,000	4,713
Return on Homes Sold After Interest Expense***	(\$5,844,000)	(\$4,826)

* Amount excludes expenses incurred during the period that are not related to homes sold during the period.

** Holding costs and interest expense include \$1.8 million and \$2.9 million, respectively, of costs incurred in prior quarters associated with homes sold in the third quarter of 2019.

*** Average Return on Homes Sold After Interest Expense and Average Return on Homes Sold Before Interest Expense are non-GAAP financial measures; they are not calculated or presented in accordance with U.S. generally accepted accounting principles, or GAAP. Please see the below sections "Use of Non-GAAP Financial Measures" and "Non-GAAP Average Return on Homes Sold Before Interest Expense" for more information about our presentation of Average Return on Homes Sold After Interest Expense and Average Return on Homes Sold Before Interest Expense, including reconciliation to the most directly comparable GAAP financial measure, which is gross profit for the Homes segment and, on a per home basis, per home gross profit.

² Gross profit for the Homes segment and, on a per home basis, per home gross profit, are the most directly comparable GAAP financial measures to our presentation of return on homes sold after interest expense and Average Return on Homes Sold After Interest Expense. Please see the below sections "Use of Non-GAAP Financial Measures" and "Non-GAAP Average Return on Homes Sold Before Interest Expense" for more information.

³ <https://www.zillowgroup.com/news/zillow-offers-seller-stories-black/>

MORTGAGES SEGMENT RESULTS

Mortgages revenue for the third quarter was \$25.3 million, an increase of 37% year over year, primarily driven by our October 2018 acquisition of Zillow Home Loans (formerly Mortgage Lenders of America), exceeding our Q3 outlook.

During the quarter, we were pleased to welcome Rian Furey as President of Zillow Home Loans and SVP of Mortgages, and Libby Cooper as Vice President of Strategy and Operations. Rian brings 20 years of direct consumer lending operations and capital markets experience to the role, and he and Libby have hit the ground running as they establish Zillow Home Loans as the payments platform for our customers.

Mortgages Highlights

SEGMENT REVENUE:

\$25.3 Million

37% YoY growth

SEGMENT LOSS BEFORE
INCOME TAXES:

(\$12.3) Million

SEGMENT ADJUSTED EBITDA:

(\$7.4) Million

Third Quarter 2019 Financial Details

OPERATING EXPENSE SUMMARY

Total operating expenses increased 125% year over year to \$793.7 million. The increase was primarily due to the rapid growth in activity associated with the purchase and sale of homes in our Zillow Offers business. Cost trends in IMT were favorable and reflected our focus on improving operating leverage and streamlining operations. The increases in our Mortgages segment expenses year over year were primarily driven by the inclusion of and continued build out of our mortgage origination business that we acquired in October 2018.

The following table presents certain of our costs and expenses by segment for the periods presented (in thousands, unaudited):

	Three Months Ended September 30, 2019			Three Months Ended September 30, 2018			2018 to 2019 % Change		
	Homes	IMT	Mortgages	Homes	IMT	Mortgages	Homes	IMT	Mortgages
Cost of revenue	\$ 370,796	\$ 24,318	\$ 4,721	\$ 10,226	\$ 25,186	\$ 1,260	3,526%	(3)%	275%
Sales and marketing	49,186	118,514	13,647	4,650	117,522	6,562	958%	1%	108%
Technology and development	20,651	94,656	8,667	6,128	93,930	5,256	237%	1%	65%
General and administrative	22,174	55,749	10,570	6,010	60,678	4,055	269%	(8)%	161%

BALANCE SHEET & CASH FLOW SUMMARY

We ended the quarter with more than \$2.3 billion in cash and short-term investments, including the nearly \$1.1 billion in net proceeds after deducting fees and expenses payable by Zillow (\$935.1 million after deducting the costs of related capped call transactions) we raised through the successful completion of our previously announced convertible debt offerings in September.

In October, we also secured an additional non-recourse revolving credit facility with up to \$500 million in borrowing capacity to support the expansion of our Zillow Offers business, bringing our total asset-backed, non-recourse credit facility capacity to \$1.5 billion. These credit facilities provide us the ability to finance up to 85% of the lesser of the aggregate acquisition cost or the aggregate market value of a property, using each home as collateral. We now

have approximately \$900 million in undrawn lines of credit, bringing our total maximum corporate liquidity to \$3.3 billion. This provides us with strength on our balance sheet and strategic flexibility.

OUTLOOK

The following table presents our outlook for the periods presented (in millions, unaudited):

Zillow Group Outlook as of November 7, 2019

(in millions)	Three Months Ending December 31, 2019	Year Ending December 31, 2019
Revenue:		
IMT segment:		
Premier Agent	\$225 to \$229	\$915 to \$919
Total IMT segment revenue	\$308 to \$315	\$1,265 to \$1,272
Homes segment	\$465 to \$490	\$1,227 to \$1,252
Mortgages segment	\$17 to \$20	\$97 to \$100
Total revenue	\$790 to \$825	\$2,589 to \$2,624
Adjusted EBITDA*:		
IMT segment	\$68 to \$73	\$284 to \$289
Homes segment	(\$95) to (\$85)	(\$254) to (\$244)
Mortgages segment	(\$16) to (\$13)	(\$31) to (\$28)
Total Adjusted EBITDA	(\$43) to (\$25)	(\$1) to \$17
Weighted average shares outstanding — basic	207.0 to 209.0	205.5 to 207.5
Weighted average shares outstanding — diluted	212.0 to 214.0	210.0 to 212.0

* Zillow Group has not provided a quantitative reconciliation of forecasted GAAP net loss to forecasted total Adjusted EBITDA or of forecasted GAAP income (loss) before income taxes to forecasted segment Adjusted EBITDA within this communication 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 net loss and income (loss) before income taxes, are inherently uncertain and depend on various factors, many of which are outside of Zillow Group's control. For more information regarding the non-GAAP financial measure discussed in this communication, please see "Use of Non-GAAP Financial Measures" below.

Internet, Media & Technology Segment

In Q4, we expect IMT revenue growth of 4% year over year at the midpoint of the outlook range and an Adjusted EBITDA margin of 23% at the midpoint. We have increased our outlook for full-year IMT revenue and Adjusted EBITDA by \$8.5 million and \$9.0 million, respectively, at the midpoint of the outlook range, due to our outperformance in Q3 and the continued, favorable trends we are seeing in agent retention and productivity thus far in Q4. In Q4, Premier Agent revenue is expected to be between \$225 and \$229 million, which is an increase of 3% year over year at the midpoint. And, full year Premier Agent revenue is raised

and tightened to between \$915 and \$919 million, representing a 2% increase year over year at the midpoint.

Homes Segment

In Q4, we expect Homes revenue to be between \$465 and \$490 million. This forecast reflects the sequential uplift from new market openings (i.e., full-quarter impact of the 8 new markets launched in Q3, and the partial quarter impact of the one additional market we expect to launch in Q4), partially offset by seasonal slowing in our home acquisition rate, consistent with seasonal market trends.

Mortgages Segment

In Q4, we expect Mortgages revenue to decrease year over year, as we annualize the acquisition of Mortgage Lenders of America that closed on October 31, 2018 and continue to invest in our mortgage technology platform. Due to Q3's stronger than anticipated results, however, we now expect full-year revenue to be at the high end of our previous guidance range and Adjusted EBITDA to be above the high end of our previous guidance ranges.

HOUSING MARKET UPDATE

The typical U.S. home is worth \$231,000, up nearly 5% from a year ago, according to Zillow's September housing market report. After years of unsustainable, double-digit growth, the market appears to be entering a period of stabilization, rather than a true slowdown.

While the rate of annual home value growth has slowed over the last year, the rate remains well above the historic average in most major metros, fueled by strong buyer demand and low mortgage rates. Inventory remains constrained. Even accounting for seasonality, there are 6.4% fewer homes for sale than there were at this time last year.

Mortgage rates continue to hover near record lows at around 3.7% for a 30-year fixed-rate mortgage, keeping pressure on the lower end of the market. Meanwhile, rent growth continues to be stable across the U.S., up 2.2% nationally to \$1,597.

SUMMARY

Consumer demand for a seamless, tech-enabled real estate transaction is growing steadily, and we believe Zillow Group has many competitive advantages to lead the market to Real Estate 2.0. This starts with our large and stable Premier Agent business that is the foundation of our emerging businesses fueled by a large audience, high brand awareness and trust, best-in-class data intelligence and technology systems, strong industry partnerships and critical operational expertise.

By moving further down funnel, our total addressable market has expanded from \$18 billion in real estate advertising⁴ to \$1.8 trillion in real estate

⁴ Borrell Associates 2019; Total spent on online and offline residential real estate advertising.

transactions⁵ - and this excludes the numerous adjacent market opportunities that surround every home transaction.

We remain energized by the opportunity in front of us to transform not only our company, but our industry as well. This expedition will take years, not months, to realize our full potential. With every quarter, we gain valuable experience that enables us to refine our model, which we believe will drive improved margins and returns over time and ultimately deliver long-term value for our customers, partners, employees and shareholders.

We remain committed to providing you with clarity and insights as we progress along this journey. As always, we appreciate you joining us. We have every confidence it will be worth it.

Sincerely,

Rich Barton, Co-founder & CEO
Allen Parker, CFO

Conference Call and Webcast

Zillow Group Co-founder & CEO Rich Barton and CFO Allen Parker will host a live conference call and webcast to discuss the results today at 2 p.m. Pacific Time (5 p.m. Eastern Time).

A link to the live webcast and recorded replay of the conference call will be available on the investor relations section of Zillow Group's website: <https://investors.zillowgroup.com/financials/quarterly-results/default.aspx>. The live call may also be accessed via phone (866) 270-1533 toll-free domestically and at (412) 317-0797 internationally.

* * *

Zillow Group's third quarter 2019 supplemental financial results tables are available on the investor relations section of the Zillow Group website at <https://investors.zillowgroup.com/financials/quarterly-results/default.aspx>. They are also included as Exhibit 99.2 to its Current Report on Form 8-K as furnished to the SEC on November 7, 2019, which is available on the investor relations section of the Zillow Group website at <https://investors.zillowgroup.com/financials/sec-filings/default.aspx> and the SEC's website at www.sec.gov.

Forward-Looking Statements

This communication contains 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 long-term business and financial targets; the performance of the Homes, Mortgages, and IMT segments in 2019 and

⁵ Represents estimated aggregate transaction value of existing and new homes sold in 2019. US Census Bureau and National Association of REALTORS® 2019.

beyond; the current and future health and stability of the residential housing market, as well as statements regarding our business outlook for 2019, strategic priorities, and operational plans for 2019 and 2020. Statements containing words such as “may,” “believe,” “anticipate,” “expect,” “intend,” “plan,” “project,” “will,” “projections,” “continue,” “estimate,” “outlook,” “guidance,” or similar expressions constitute forward-looking statements. Forward-looking statements are made based on assumptions as of November 7, 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, 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; 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 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, 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 Measures

This communication includes references to Adjusted EBITDA (on both a consolidated basis and for each segment, and including forecasted Adjusted EBITDA and EBITDA margin), average return on homes sold before interest expense and Average Return on Homes Sold After Interest Expense, which are non-GAAP 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.

Adjusted EBITDA

To provide investors with additional information regarding our financial results, this shareholder letter includes references to Adjusted EBITDA (on both a consolidated basis and for each segment, and including forecasted Adjusted EBITDA and EBITDA margin), which is a non-GAAP financial measure. We have provided a reconciliation of Adjusted EBITDA to the most directly comparable GAAP financial measure, which is net loss on a consolidated basis and income (loss) before income taxes for each segment, within this shareholder letter.

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 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 income (loss) before income taxes and our other GAAP results. You should not consider Adjusted EBITDA in isolation or as a substitute for analysis of our results as reported under GAAP.

The following table presents Adjusted EBITDA along with the most directly comparable GAAP financial measure, which is net loss on a consolidated basis and income (loss) before income taxes for each segment along with the calculation of Adjusted EBITDA margin and associated year over year growth rates and the most directly comparable GAAP financial measure and related year over growth rates, which is net loss margin on a consolidated basis and income (loss) before income taxes margin for each segment, for the periods presented (in thousands, unaudited):

	Three Months Ended September 30,		2018 to 2019 % Change	Nine Months Ended September 30,		2018 to 2019 % Change
	2019	2018		2019	2018	
Revenue:						
Homes segment	\$ 384,626	\$ 11,018	3,390.9%	\$ 762,022	\$ 11,018	6,816.2%
IMT segment:						
Premier Agent	240,698	232,703	3.4%	690,394	677,320	1.9%
Rentals	44,430	37,319	19.1%	124,938	99,670	25.4%
Other ¹	50,162	43,616	15.0%	141,899	123,445	14.9%
Total IMT segment revenue	335,290	313,638	6.9%	957,231	900,435	6.3%
Mortgages segment	25,292	18,438	37.2%	79,637	56,766	40.3%
Total revenue	\$ 745,208	\$ 343,094	117.2%	\$ 1,798,890	\$ 968,219	85.8%
Other Financial Data:						
Segment income (loss) before income taxes:						
Homes segment	\$ (87,870)	\$ (16,428)	(434.9)%	\$ (204,197)	\$ (30,879)	(561.3)%
IMT segment	\$ 42,053	\$ 6,322	565.2%	\$ 43,839	\$ (184)	23,925.5%
Mortgages segment	\$ (12,254)	\$ (623)	(1,866.9)%	\$ (32,308)	\$ (625)	(5,069.3)%
Net loss	\$ (64,649)	\$ (492)	(13,040.0)%	\$ (204,151)	\$ (22,176)	(820.6)%
Adjusted EBITDA ² :						
Homes segment	\$ (67,825)	\$ (13,409)	(405.8)%	\$ (158,801)	\$ (25,274)	(528.3)%
IMT segment	91,102	75,363	20.9%	216,204	181,764	18.9%
Mortgages segment	(7,435)	4,211	(276.6)%	(15,342)	11,985	(228.0)%
Total Adjusted EBITDA	\$ 15,842	\$ 66,165	(76.1)%	\$ 42,061	\$ 168,475	(75.0)%
Percentage of Revenue:						
Segment income (loss) before income taxes:						
Homes segment	(22.8)%	(149.1)%	84.7%	(26.8)%	(280.3)%	90.4%
IMT segment ²	12.5%	2.0%	525.0%	4.6%	--%	N/A
Mortgages segment	(48.5)%	(3.4)%	(1,326.5)%	(40.6)%	(1.1)%	(3,590.9)%
Net loss	(8.7)%	--%	N/A	(11.3)%	(2.3)%	(391.3)%
Adjusted EBITDA:						
Homes segment	(17.6)%	(121.7)%	85.5%	(20.8)%	(229.4)%	90.9%
IMT segment ²	27.2%	24.0%	13.3%	22.6%	20.2%	11.9%
Mortgages segment	(29.4)%	22.8%	(228.9)%	(19.3)%	21.1%	(191.5)%
Total Adjusted EBITDA	2.1%	19.3%	(89.1)%	2.3%	17.4%	(86.8)%

¹ Other revenue primarily includes revenue generated by new construction and display, as well as revenue from the sale of various other marketing and business products and services to real estate professionals.

² IMT segment income before income taxes margin for the three months ended September 30, 2019 of 12.5% less the comparable 2018 period margin of 2.0%, results in a 1,050 basis point IMT segment income before income taxes margin expansion for the three months ended September 30, 2019. IMT segment Adjusted EBITDA margin for the three months ended September 30, 2019 of 27.2% less the comparable 2018 period margin of 24.0%, results in a 320 basis point IMT segment Adjusted EBITDA margin expansion for the three months ended September 30, 2019. IMT segment income before income taxes margin for the nine months ended September 30, 2019 of 4.6% less the comparable 2018 period margin of 0.0%, results in a 460 basis point IMT segment income before income taxes margin expansion for the nine months ended September 30, 2019. IMT segment Adjusted EBITDA margin for the nine months ended September 30, 2019 of 22.6% less the comparable 2018 period margin of 20.2%, results in a 240 basis point IMT segment Adjusted EBITDA margin expansion for the nine months ended September 30, 2019.

The following tables set forth a reconciliation of Adjusted EBITDA to the most directly comparable GAAP financial measure, which is net loss on a consolidated basis and income (loss) before income taxes for each segment, for each of the periods presented (in thousands, unaudited):

Three Months Ended September 30, 2019					
	Homes	IMT	Mortgages	Corporate Items ²	Consolidated
Reconciliation of Adjusted EBITDA to Net Loss and Income (Loss) Before Income Taxes:					
Net loss ¹	N/A	N/A	N/A	N/A	\$ (64,649)
Income tax benefit	N/A	N/A	N/A	N/A	(1,300)
Income (loss) before income taxes	\$ (87,870)	\$ 42,053	\$ (12,254)	\$ (7,878)	\$ (65,949)
Other income	-	-	(344)	(8,655)	(8,999)
Depreciation and amortization expense	2,331	18,362	1,467	-	22,160
Share-based compensation expense	8,025	30,687	3,416	-	42,128
Interest expense	9,689	-	280	16,533	26,502
Adjusted EBITDA	\$ (67,825)	\$ 91,102	\$ (7,435)	\$ -	\$ 15,842

Three Months Ended September 30, 2018					
	Homes	IMT	Mortgages	Corporate Items ²	Consolidated
Reconciliation of Adjusted EBITDA to Net Loss and Income (Loss) Before Income Taxes:					
Net loss ¹	N/A	N/A	N/A	N/A	\$ (492)
Income tax benefit	N/A	N/A	N/A	N/A	(14,700)
Income (loss) before income taxes	\$ (16,428)	\$ 6,322	\$ (623)	\$ (4,463)	\$ (15,192)
Other income	-	-	-	(7,773)	(7,773)
Depreciation and amortization expense	368	22,053	954	-	23,375
Share-based compensation expense	2,219	36,988	2,475	-	41,682
Impairment costs	-	10,000	-	-	10,000
Acquisition-related costs	-	-	1,405	-	1,405
Interest expense	432	-	-	12,236	12,668
Adjusted EBITDA	\$ (13,409)	\$ 75,363	\$ 4,211	\$ -	\$ 66,165

Nine Months Ended September 30, 2019					
	Homes	IMT	Mortgages	Corporate Items ²	Consolidated
Reconciliation of Adjusted EBITDA to Net Loss and Income (Loss) Before Income Taxes:					
Net loss ¹	N/A	N/A	N/A	N/A	\$ (204,151)
Income tax benefit	N/A	N/A	N/A	N/A	(3,800)
Income (loss) before income taxes	\$ (204,197)	\$ 43,839	\$ (32,308)	\$ (15,285)	\$ (207,951)
Other income	-	-	(1,059)	(26,566)	(27,625)
Depreciation and amortization expense	5,384	54,264	4,240	-	63,888
Share-based compensation expense	20,666	118,101	13,117	-	151,884
Interest expense	19,346	-	668	41,851	61,865
Adjusted EBITDA	\$ (158,801)	\$ 216,204	\$ (15,342)	\$ -	\$ 42,061

	Nine Months Ended September 30, 2018				
	Homes	IMT	Mortgages	Corporate Items ²	Consolidated
Reconciliation of Adjusted EBITDA to Net Loss and Loss Before Income Taxes:					
Net loss ¹	N/A	N/A	N/A	N/A	\$ (22,176)
Income tax benefit	N/A	N/A	N/A	N/A	(22,700)
Loss before income taxes	\$ (30,879)	\$ (184)	\$ (625)	\$ (13,188)	\$ (44,876)
Other income	-	-	-	(13,308)	(13,308)
Depreciation and amortization expense	608	72,168	3,525	-	76,301
Share-based compensation expense	4,565	99,753	7,048	-	111,366
Impairment costs	-	10,000	-	-	10,000
Acquisition-related costs	-	27	2,037	-	2,064
Interest expense	432	-	-	26,496	26,928
Adjusted EBITDA	\$ (25,274)	\$ 181,764	\$ 11,985	\$ -	\$ 168,475

¹ We use income (loss) before income taxes as our profitability measure in making operating decisions and assessing the performance of our segments, therefore, net loss and income tax benefit are calculated and presented only on a consolidated basis within our financial statements.

² Certain corporate items are not directly attributable to any of our segments, including interest income earned on our short-term investments included in Other income and interest costs on our convertible senior notes included in Interest expense.

Non-GAAP Average Return on Homes Sold After Interest Expense

To provide investors with additional information regarding our Homes segment financial results, this Exhibit includes a calculation of Average Return on Homes Sold After Interest Expense, which is a non-GAAP financial measure. We have provided a reconciliation of Average Return on Homes Sold After Interest Expense to the most directly comparable GAAP financial measure, which is average gross profit per home for the Homes segment.

We believe that Average Return on Homes Sold After Interest Expense is a useful financial measure to investors as it is one of the primary measures used by management in making investment decisions, measuring unit level economics and evaluating operating performance for the Zillow Offers business. The measure is intended to convey the unit level economics of homes sold during the period by presenting the average revenue and associated expenses directly attributed to the homes sold. We believe this average per unit measure facilitates meaningful period over period comparisons notwithstanding variability in the number of homes sold during a period and indicates ability to generate average returns on assets sold after considering home purchase costs, renovation costs, holding costs and selling costs.

We calculate the average return on homes sold after interest expense as revenue associated with homes sold during the period less direct costs attributable to those homes divided by the number of homes sold during the period. Specifically, direct costs include, with respect to each home sold during the period (1) home acquisition and renovation costs, which in turn include certain labor costs directly associated with these activities; (2) holding and selling costs; and (3) interest costs incurred.

Included in direct holding and interest expense amounts for the periods presented are holding and interest costs recorded as period expenses in prior periods associated with homes sold in the current period, which are not calculated in accordance with, or as an alternative for, GAAP and should not be considered in isolation or as a substitute for results reported under GAAP. Excluded from certain of these direct cost amounts are costs recorded in the current period related to homes that remain in inventory at the end of the period, as shown in the tables below. We make these period adjustments because we believe presenting Average Return on Homes Sold After Interest Expense in this manner provides a focused view on a subset of our assets - homes sold during the period - and reflecting costs associated with those homes sold from the time we acquire to the time we sell the home, which may be useful to investors.

Average Return on Homes Sold After Interest Expense is intended to illustrate the performance of homes sold during the period and is not intended to be a segment or company performance metric. Average Return on Homes Sold After Interest Expense is a supplemental measure of

operating performance for a subset of assets and 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:

- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Average Return on Homes Sold After Interest Expense does not reflect capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Average Return on Homes Sold After Interest Expense does not consider the potentially dilutive impact of share-based compensation;
- Average Return on Homes Sold After Interest Expense does not include period costs that were not eligible for inventory capitalization associated with homes held in inventory at the end of the period;
- Average Return on Homes Sold After Interest Expense does not reflect indirect expenses included in cost of revenue, sales and marketing, technology and development, or general and administrative expenses, some of which are recurring cash expenditures necessary to operate the business; and
- Average Return on Homes Sold After Interest Expense does not reflect income taxes.

The calculation of Average Return on Homes Sold After Interest Expense includes only those expenses directly attributed to the homes sold during the period. To arrive at return on homes sold after interest expense, the Company deducts from Homes segment gross profit (1) holding costs incurred in the current period and prior periods for homes sold during the period that are included in sales and marketing expense, (2) selling costs incurred in the current period for homes sold during the period that are included in sales and marketing expense and (3) interest expense incurred in the current and prior periods for homes sold during the period. The Company adds to Homes segment gross profit (1) inventory valuation adjustments recorded during the period associated with homes that remain in inventory at period end, net of inventory valuation adjustments recorded in prior periods related to homes sold in the current period, and indirect expenses included in cost of revenue and (2) share-based compensation expense and depreciation and amortization expense included in cost of revenue. The following table presents the calculation of Homes segment average gross profit per home and Average Return on Homes Sold After Interest Expense and a reconciliation of return on homes sold after interest expense to Homes segment gross profit (unaudited):

Three Months Ended September 30, 2019	
Calculation of Average Gross Profit per Home	
Homes segment revenue	\$384,626,000
Homes segment cost of revenue	370,794,000
Homes segment gross profit	\$13,830,000
Homes sold	1,211
Average gross profit per home	\$11,420
Reconciliation of Non-GAAP Measure to Nearest GAAP Measure	
Homes segment gross profit	\$13,830,000
Holding costs included in sales and marketing ¹	(4,634,000)
Selling costs included in sales and marketing ²	(16,835,000)
Interest expense ³	(5,708,000)
Direct and indirect expenses included in cost of revenue ⁴	7,153,000
Share-based compensation expense and depreciation and amortization expense included in cost of revenue	350,000
Return on homes sold after interest expense	\$(5,844,000)
Homes sold	1,211
Average return on homes sold after interest expense per home	\$(4,826)

¹ Amount represents holding costs incurred related to homes sold in the current period that were not eligible for inventory capitalization and were therefore expensed as period costs in the current period and prior periods. These costs primarily include homeowners association dues, property taxes, insurance, utilities, and cleaning and maintenance costs incurred during the time a home is held for sale after the renovation period is complete. On a GAAP basis, the Company incurred a total of \$7.7 million of holding costs included in sales and marketing expense for the period presented.

² Amount represents selling costs incurred related to homes sold in the current period that were not eligible for inventory capitalization and were therefore expensed as period costs in the current period. These costs primarily include agent commissions paid upon the sale of a home.

³ Amount represents interest expense incurred related to homes sold in the current period that was not eligible for inventory capitalization and was therefore expensed as a period cost in the current period and prior periods.

⁴ Amount includes inventory valuation adjustments recorded during the period associated with homes that remain in inventory at period end, net of inventory valuation adjustments recorded in prior periods related to homes sold in the current period, as well as corporate costs allocated to the Homes segment such as headcount expenses and hosting-related costs related to the operation of our website.

Use of Operating Metrics

Zillow Group reviews a number of operating metrics to evaluate its business, measure performance, identify trends, formulate business plans, and make strategic decisions. This shareholder letter includes Premier Agent MBP Monthly Recurring Revenue Growth (excluding Flex Markets) and the percentage of total Premier Agent monthly recurring revenue that is or will be participating in Flex testing by the end of 2019. Zillow Group is using these operating metrics for this quarter to evaluate and provide investors with insight into the health and performance of Zillow Group's Premier Agent market based pricing ("MBP") product.

Zillow Group calculates monthly recurring revenue ("MRR") by assessing the contractual monthly budgeted spend of each relevant advertiser account, as of the date of determination, as to the revenue we expect to generate in the next monthly period for that account. Our MRR calculation assumes that there will not be changes to pricing or purchase or cancellation of any products or services that may be applicable to that account. MRR is calculated as of the end of each quarterly period. MRR is not determined by reference to historical revenue, deferred revenue, or any other GAAP financial measure over any period. It is forward-looking and contractually derived as of the date of determination.

For purposes of estimating the percentage of total Premier Agent MRR that we expect will be testing Flex by the end of 2019, we use the total MRR for all Premier Agent and Premier Broker accounts.

In order to isolate the performance of MBP, we calculate the Premier Agent MBP MRR Growth metric by excluding from all periods presented (i) ancillary and add-on products sold separately from MBP, (ii) seller leads, and (iii) the impact of MBP MRR attributable to accounts in markets that have or will transition to our Flex pricing model as of the end of 2019. The percentage growth rates illustrate percentage change in MRR as of the end of a quarterly period compared to MRR for the same period in the prior year.