

ZILLOW GROUP, INC.
Form 10-K
February 15, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

For the fiscal year ended December 31, 2017

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

Commission File Number 001-36853

ZILLOW GROUP, INC.

(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of

47-1645716
(IRS Employer

incorporation or organization) 1301 Second Avenue, Floor 31,	Identification No.)
Seattle, Washington (Address of principal executive offices)	98101 (Zip code)
(206) 470-7000	
@ZillowGroup	
(Registrant's telephone number, including area code)	

Securities registered pursuant to Section 12(b) of the Act:

Class A Common Stock, par value \$0.0001 per share	The Nasdaq Global Select Market
Class C Capital Stock, par value \$0.0001 per share	The Nasdaq Global Select Market
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act: Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act): Yes No

As of June 30, 2017, the last business day of the Registrant's most recently completed second fiscal quarter, the aggregate market value of the Registrant's Class A common stock and Class C capital stock held by non-affiliates based upon the closing price of such shares on The Nasdaq Global Select Market on such date was \$7,952,046,852.

As of February 8, 2018, 56,778,022 shares of the Registrant's Class A common stock, 6,217,447 shares of Class B common stock and 127,687,439 shares of Class C capital stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report, to the extent not set forth herein, is incorporated in this Report by reference to the Registrant's definitive proxy statement relating to the 2018 annual meeting of shareholders. The definitive proxy statement will be filed with the Securities and Exchange Commission within 120 days after the end of the 2017 fiscal year.

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ZILLOW GROUP, INC.

Annual Report on Form 10-K

for the Fiscal Year Ended December 31, 2017

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As used in this Annual Report on Form 10-K, the terms Zillow Group, the Company, we, us and our refer to Zillow Group, Inc., unless the context indicates otherwise.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including the sections entitled Management's Discussion and Analysis of Financial Condition and Results of Operations, Risk Factors and Business, contains forward-looking statements based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include all statements that are not historical facts and generally may be identified by terms such as believe, may, will, estimate, continue, anticipate, intend, could, would, project, plan, expect or the negative words or similar expressions.

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those risks, uncertainties and assumptions described in Part I, Item 1A (Risk Factors) of this report. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the effect of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely on forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, except as required by law, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements, and we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this report to conform these statements to actual results or to changes in our expectations.

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PART I

Item 1. Business.

Mission

Our mission is to build the largest, most trusted and vibrant home-related marketplace in the world.

Overview

Zillow Group, Inc. operates the leading real estate and home-related information marketplaces on mobile and the web, with a complementary portfolio of brands and products to help people find vital information about homes and connect with local professionals. Zillow Group's brands focus on all stages of the home lifecycle: buying, selling, renting and financing. The Zillow Group portfolio of consumer brands includes real estate and rental marketplaces Zillow, Trulia, StreetEasy, HotPads, Naked Apartments, RealEstate.com and OutEast.com. In addition, Zillow Group provides a comprehensive suite of marketing software and technology solutions to help real estate, rental and mortgage professionals maximize business opportunities and connect with millions of consumers. We also own and operate a number of business brands for real estate, rental and mortgage professionals, including Mortech, dotloop, Bridge Interactive and New Home Feed. Zillow, Inc. was incorporated as a Washington corporation in December 2004, and we launched the initial version of our website, Zillow.com, in February 2006. Zillow Group, Inc. was incorporated as a Washington corporation in July 2014 in connection with our acquisition of Trulia. Upon the closing of the Trulia acquisition in February 2015, each of Zillow and Trulia became wholly owned subsidiaries of Zillow Group.

Our living database of more than 110 million U.S. homes including homes for sale, homes for rent and homes not currently on the market attracts an active and vibrant community of users. Individuals and businesses that use Zillow's mobile applications and websites have updated information on more than 75 million homes, creating exclusive home profiles not available anywhere else. These profiles include detailed information about homes, including property facts, listing information and purchase and sale data. Using complex, proprietary automated valuation models, we provide current home value estimates, or Zestimates, and current rental price estimates, or Rent Zestimates, on approximately 100 million U.S. homes. We provide this information to our users where, when and how they want it, through our industry-leading mobile applications and websites.

Consumers increasingly are turning to the internet and mobile devices for real estate information. Traffic to Zillow Group brands' mobile applications and websites reached a seasonal peak of more than 187 million monthly unique users in July 2017, an increase of 10% year over year. Visits increased by 19% to 6,314.4 million for the year ended December 31, 2017 compared to the year ended December 31, 2016. For additional information regarding unique users and visits, see Unique Users and Visits in the Management's Discussion and Analysis of Financial Condition and Results of Operations. More than two-thirds of our flagship brand Zillow's usage occurs on a mobile device; on weekends it's more than 75%. We operate one of the most popular suites of mobile real estate applications with more than fifty applications across all major mobile platforms. For example, on our flagship Zillow brand, during December 2017, nearly 630 million homes were viewed on a mobile device, or 234 homes per second. We monetize our marketplace business on mobile in the same way we do on our web platform.

Real estate, rental and mortgage professionals are a critical part of home-related marketplaces. We have created a trusted and transparent marketplace where consumers can search and read reviews on local real estate, rental and mortgage professionals and contact those professionals on their own terms.

Our home-related marketplaces benefit from network effects. As more consumers come to our mobile applications and websites to use our products and services, more real estate, rental and mortgage professionals contribute content to distinguish themselves, thereby making our marketplaces more useful and attracting

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additional consumers. As of December 31, 2017, we had published more than 3.5 million reviews, including more than 3.0 million reviews of local real estate agents and approximately 495,000 reviews of mortgage professionals submitted by our users on Zillow.

Our revenue has grown significantly since our initial website launch in 2006. For the year ended December 31, 2017, we generated revenue of \$1,076.8 million, as compared to \$846.6 million for the year ended December 31, 2016, an increase of 27%. We generate revenue from the sale of advertising services and our suite of marketing software and technology solutions to businesses and professionals primarily associated with the residential real estate, mortgage and rental industries. These professionals include real estate, mortgage and rental professionals and brand advertisers. Our two primary revenue categories are marketplace revenue and display revenue.

Marketplace revenue for the year ended December 31, 2017 consists of Premier Agent revenue, other real estate revenue and mortgages revenue. Premier Agent revenue is generated by the sale of advertising under our Premier Agent and Premier Broker programs, which offer a suite of marketing and business technology products and services to help real estate agents and brokers achieve their advertising needs, while growing and managing their businesses and brands. We offer our flagship Premier Agent advertising product and our Premier Broker advertising product on a cost per impression basis. Impressions are delivered when a sold advertisement appears on pages viewed by users of our mobile applications and websites. Other real estate revenue primarily includes revenue generated by Zillow Group Rentals, as well as revenue from the sale of various other marketing and business products and services to real estate professionals, including our new construction marketing solutions. Zillow Group Rentals includes our rentals marketplace and suite of tools for rental professionals. Rentals revenue primarily includes revenue generated by advertising sold to property managers and other rental professionals on a cost per lead, cost per lease and cost per click generated basis. Our new construction marketing solutions allow home builders to showcase their available inventory to home shoppers. New construction revenue primarily includes revenue generated by advertising sold to builders on a cost per residential community basis. Mortgages revenue primarily includes advertising sold to mortgage lenders and other mortgage professionals, including our Long Form and Custom Quote services, as well as revenue generated by Mortech, which provides subscription-based mortgage software solutions, including a product and pricing engine and lead management platform.

Display revenue primarily consists of graphical mobile and web advertising sold on a cost per thousand impressions or cost per click basis to advertisers promoting their brands on our mobile applications and websites and our partner websites and mobile applications, primarily in the real estate industry, including real estate brokerages, multi-family rental professionals, mortgage professionals and home services providers. Our advertising customers also include telecommunications, automotive, insurance and consumer products companies.

On February 17, 2015, Zillow Group acquired Trulia, and Trulia and Zillow became wholly owned subsidiaries of Zillow Group. We have included Trulia in Zillow Group's results of operations prospectively after February 17, 2015, the date of acquisition. Because the Trulia acquisition occurred during the year ended December 31, 2015, the information presented in this report with respect to the year ended December 31, 2015 relates to Zillow on a standalone basis prior to February 17, 2015 and to Zillow Group after February 17, 2015, whereas the information presented in this report with respect to the year ended December 31, 2016 relates to Zillow Group. Results of operations, including Marketplace revenue, for the year ended December 31, 2015 also include the Market Leader business from February 17, 2015 through the date of divestiture of September 30, 2015. As a result, comparisons to the prior-year period may not be indicative of future results or future rates of growth.

Portions of our business may be affected by seasonal fluctuations in the residential real estate market, advertising spending, and other factors. We believe our rapid growth may be masking the underlying seasonality of our business. As our revenue growth rate slows, we expect seasonal variances may become more pronounced, causing our operating

results to fluctuate. For example, in the years ended December 31, 2017, 2016, and 2015,

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costs and expenses peaked in the three months ended June 30th, primarily attributable to increases in sales and marketing expenses which were, in turn, primarily attributable to increased investment in marketing and advertising initiatives to attract consumers across online and offline channels during peak seasons for home sales activity. In addition, the average number of unique users and visits have historically peaked during the three months ended June 30th or September 30th, also consistent with peak residential real estate activity in the spring and summer months. Because the number of unique users and visits may impact impression inventory, leads to real estate professionals, and graphical display inventory which we monetize, this trend in the average number of unique users and visits may result in seasonality of revenue.

Industry Dynamics

The Importance of Homes

Homes are the center of peoples' lives, the focus of some of their most important decisions and often their most valuable assets. In addition to whether to buy, sell or rent, consumers frequently make many other important home-related decisions, including decisions relating to home financing and home equity loans. Residential real estate is one of the largest sectors of the U.S. economy and supports millions of professionals that provide services related to home purchases and sales, rentals and home financings.

Large Market Opportunities

Based on external and internal assessments, we believe our current addressable markets include the following:

Purchase and Sale Sales of approximately 5.5 million existing and 608 thousand new homes in the United States in 2017 had an aggregate transaction value of approximately \$1.8 trillion, according to data published in 2018 by the U.S. Census Bureau and in 2018 by the National Association of REALTORS®. In an effort to acquire new client relationships and sell homes, U.S. real estate agents and brokers spent an estimated \$7.2 billion on residential advertising in 2017, according to a forecast from Borrell Associates released in 2017. In addition, U.S. real estate developers spent an estimated \$1.1 billion on residential advertising in 2017, also according to a forecast from Borrell Associates released in 2017. In the United States, there are 208.6 million people residing in owner-occupied housing, according to data published by the U.S. Census Bureau in November 2017. Approximately 33% of movers in 2017, or 11.5 million people, were homeowners, according to the U.S. Census Bureau migration data published in November 2017.

Rentals In the fourth quarter of 2017, there were approximately 46.2 million rental housing units in the United States, with a national vacancy rate of 6.9%, according to data published by the U.S. Census Bureau in January 2018. According to data published by the U.S. Census Bureau from the American Housing Survey and the Current Population Survey/Housing Vacancy Survey, approximately:

10.1% of rental units (4.7 million) are located in buildings with 50 or more units;

8.0% of rental units (3.7 million) are located in buildings with 20 to 49 units;

9.9% of rental units (4.6 million) are located in buildings with 10 to 19 units;

10.9% of rental units (5.0 million) are located in buildings with 5 to 9 units;

17.3% of rental units (8.0 million) are located in small multi-family structures of 2-4 units;

43.8% of rental units (20.2 million) are 1-unit structures.

According to a forecast from Borrell Associates released in 2017, U.S. rental property managers spent an estimated \$2.7 billion on advertising in 2017, which excludes lease concessions. In the United States, there are 108.0 million people residing in rental housing units, according to data published by the U.S. Census Bureau in 2017.

Approximately 67% of movers in 2017, or 23.4 million people, were renters, according to the U.S. Census Bureau migration data published in November 2017.

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Home Financing According to a forecast from the Mortgage Bankers Association published in January 2018, approximately \$1.7 trillion in U.S. residential mortgage originations occurred in 2017. U.S. residential mortgage providers spent approximately \$6.6 billion in 2017 marketing their services and loan products to mortgage borrowers, according to a forecast from Borrell Associates released in 2017.

Highly Fragmented, Local and Complex Market

The market for residential real estate transactions and home-related services is highly fragmented, local and complex. Each home has unique characteristics, including location, value, size, style, age and condition. Each consumer approaches home-related transactions with a personal set of objectives, priorities and values. Real estate agents generally operate in local markets as independent contractors with different experiences and skills. These conditions create challenges for consumers and real estate, rental and mortgage professionals alike. Consumers are challenged to find information about homes and to find real estate, rental and mortgage professionals who fit their individual needs. Real estate, rental and mortgage professionals are challenged to efficiently advertise their services and identify new clients, and to measure the effectiveness of their marketing efforts.

Absence of Consumer Orientation

Historically, consumers had minimal access to comprehensive and objective residential real estate data, even though many home-related decisions are extraordinarily information-intensive. While real estate, rental and mortgage professionals had some data, consumers did not have free, independent and easy access to data. Even when accessible, the data were difficult to interpret and analyze.

Increasing Role of Mobile Technologies and the Internet

Consumers are increasingly turning to mobile devices and the internet to access real estate information. With the widespread adoption of mobile and location-based technologies, consumers increasingly expect home-related information to be available on their mobile devices where, when and how they want it. According to comScore data published in December 2017, Zillow Group brands represent nearly three quarters of market share of all mobile exclusive visitors to the real estate category. More than two-thirds of our flagship brand Zillow's usage occurs on a mobile device; on weekends it's more than 75%. We believe that the technological platform shift from desktop computers to mobile devices benefits technology leaders like Zillow Group that are quick to innovate. In 2017, we unveiled a new, first-of-its-kind, mobile app that allows homeowners and real estate professionals to capture 3D tours of their homes from their iPhones® and post on for-sale and for-rent listings.

Competitive Advantages

We believe we have the following competitive advantages:

Powerful Brand and Scale. We have established a powerful brand identity that includes a portfolio of the largest and most vibrant brands, and we have built a large user community. The majority of our traffic comes direct, not dependent on search engines, with demonstrated consumer intent to visit Zillow Group's brands. Traffic to Zillow Group brands' mobile applications and websites reached a seasonal peak of more than 187 million monthly unique users in July 2017, an increase of 10% year over year. Visits to Zillow Group brands' mobile applications and websites, including Zillow, Trulia, StreetEasy and RealEstate.com, increased 19% to 6,314.4 million for the year ended December 31, 2017 compared to the year ended December 31,

2016. For additional information regarding unique users and visits, see Unique Users and Visits in the Management's Discussion and Analysis of Financial Condition and Results of Operations.

Inimitable Database of Homes. Our living database of homes is the result of years of substantial investment, sophisticated economic and statistical analysis, complex data aggregation and millions of

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user contributions. Our dynamic and comprehensive living database includes detailed information on more than 110 million U.S. homes, and includes homes for sale, for rent and recently sold, as well as properties not currently on the market. This database is central to the value we provide to consumers and real estate, rental and mortgage professionals. It contains extensive information that users can search, through an easy-to-use interface, to identify, analyze and compare homes. Our database is relevant to a broad range of users, including buyers, sellers, renters, homeowners, real estate agents and other real estate professionals. It includes information such as:

Property facts: Zestimate and its corresponding value range, number of bedrooms, number of bathrooms, square footage, lot size, assessed tax value and property type such as single-family, condominium, apartment, multifamily, manufactured home or land.

Listing information: price, price history and reductions, dollars per square foot, days on the market, listing type (such as for sale by agent, for sale by owner, pre-market inventory, which includes foreclosure, pre-foreclosure, Coming Soon and Make Me Move listings, new construction and rental homes), open houses, property photos and estimated monthly mortgage payment.

Purchase and sale data: prior sales information and recent sales nearby.

We synthesize data from hundreds of automated feeds, representing information from tens of thousands of public and private sources. Applying extensive computer analytics to the data, we transform it into information that is accessible, understandable and useful.

We refer to the database as *living* because the information is continually updated by the combination of our proprietary algorithms, synthesis of third-party data from hundreds of sources, and through improvements by us and, importantly, by our community of users. User-generated content from owners, agents and others enriches our database with photos, videos, and additional property information. Individuals and businesses that use Zillow's mobile applications and websites have updated information on more than 75 million homes in our database, creating exclusive home profiles not available anywhere else. Our inimitable database enables us to create content, products and services not available anywhere else, and attracts an active, vibrant community of users. As of December 31, 2017, we had published more than 3.5 million reviews, including more than 3.0 million reviews of local real estate agents and approximately 495,000 reviews of mortgage professionals submitted by our users on Zillow.

Zestimates and Rent Zestimates. We have developed industry-leading automated home valuation models that use advanced statistical methods and complex, proprietary algorithms. We use these models to provide current home value estimates, or Zestimates, and current rental price estimates, or Rent Zestimates, on approximately 100 million U.S. homes. Based on our Zestimates, we produce Zillow Home Value Indexes at the neighborhood, zip code, city, metropolitan statistical area, county and national levels. Our Zillow Home Value Indexes have been cited by government entities such as the Federal Reserve Bank and the Congressional Oversight Panel, university studies and respected national publications. For historical comparisons, we provide up to 15 years of Zestimate history on each home and valuable information about property and real estate market trends. Our Zestimates, Rent Zestimates and Zillow Home Value Indexes allow consumers to evaluate homes and neighborhoods, and to easily evaluate historical trends, as they contemplate critical home-related decisions.

Mobile Leadership and Monetization. Shopping for a home is a far more meaningful consumer experience when it occurs curbside, untethered and on location, so we have developed and operate the most popular suite of mobile real estate applications across all major platforms. For example, on our flagship Zillow brand, during December 2017, nearly 630 million homes, or 234 homes per second, were viewed on a mobile device. More than two-thirds of our flagship brand Zillow's usage occurs on a mobile device; on weekends it's more than 75%. We operate one of the most popular suites of mobile real estate applications with more than fifty applications across all major mobile platforms. In 2017, we

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unveiled a new, first-of-its-kind, mobile app that allows homeowners and real estate professionals to capture 3D tours of their homes from their iPhones® and post on for-sale and for-rent listings. We monetize our marketplace business on our mobile platform in the same way we do on our web platform.

Independent Market Positions and Consumer Focus. Zillow Group has been built independent of any real estate industry group. We maintain an unwavering commitment to giving consumers free access to as much useful information as possible. We provide unbiased information, products and services, empowering consumers to make informed decisions about homes and the residential real estate market. We believe our independence enables us to create compelling products and services with broad consumer appeal.

Multiple Robust Home-Related Marketplaces. We have created trusted and transparent marketplaces in real estate, rentals and mortgages where consumers can identify and connect with local professionals that are best suited to meet their needs. Our living database of homes provides a foundation on which we can build new consumer and professional marketplaces in other home-related categories.

Technology Solutions for Professionals. We offer a suite of marketing and technology solutions to help real estate, rental and mortgage professionals grow their businesses and personal brands including our Premier Agent app that allows real estate professionals to manage their business from wherever they are, dotloop that has digitized the real estate transaction, and Bridge Interactive which has streamlined listing data management.

Consumer-Oriented Mortgage Marketplace. Unlike other sources of mortgage rate quotes, consumers can anonymously submit mortgage loan information requests and receive an unlimited number of personalized mortgage quotes directly from hundreds of consumer-rated lenders. Because we operate this marketplace as part of our real estate home shopping experience, we can efficiently attract motivated users to the marketplace and prioritize the consumer's experience. For the year ended December 31, 2017, there were approximately 22.7 million mortgage loan information requests submitted on Zillow Group platforms by consumers.

Personalized Experience. We present homebuyers and sellers and real estate, rental and mortgage professionals with many opportunities to personalize their Zillow Group experience, leading to more informed home shopping and financing decisions. As immediacy is paramount in the home search experience, all Zillow Group mobile applications and websites empower users by allowing them to set the criteria that matters most to them, while we take on the action of alerting them when a home or rental that matches their criteria hits the market. Whether it is through an email, desktop notification, Apple Watch® alert or Facebook® chatbot, we keep users updated on the most current home information available in our marketplace.

Proven Management Team. We believe the broad experience and depth of our management team are distinct competitive advantages in the complex and evolving industry in which we compete. The Zillow Group management team has an extensive history building successful consumer internet companies. In particular, we believe that the shared experience of our executives, many of whom have worked together at Zillow

Group for the better part of a decade, provides our management team with unique cohesion and insight.

Growth Strategies

Our growth strategies are:

Focus on Consumers. Maintain our unwavering focus on empowering consumers and leveraging our industry partnerships to enhance existing products and services, while developing new technology offerings that meet the ever-changing demands of today's home shoppers.

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Efficiently Increase Brand Awareness. Expand our targeted marketing and advertising programs, public relations, social media initiatives and content distribution to efficiently increase consumer awareness across all brands in our portfolio.

Leverage and Expand Our Mobile Leadership. Innovate on our mobile device products, continue to optimize for mobile web and launch new features and applications that extend our brands and products across additional mobile platforms.

Continuously Provide Growth Opportunities for Premier Agents and Brokers, Home Builders, Rental Property Managers, and Mortgage Lenders. Provide real estate, rental and mortgage professionals participating in our marketplaces continuous opportunities to grow their respective businesses by developing a broad variety of marketing software, technology solutions and other support services to help those professionals manage and grow their businesses and personal brands.

Deepen and Expand Our Marketplaces Across the Lifecycle of Homes. Deepen and expand our platform beyond advertising services for real estate, rental and mortgage professionals by creating new opportunities for high-quality consumer-initiated connections and professional services and relationships. Also, pursue commercial relationships and acquisitions to strengthen our market position, enhance our technology offerings and accelerate our growth.

Enhance Our Living Database of Homes. Enhance the information in our database of more than 110 million homes, and use it as the foundation for new analyses, insights and tools to inform consumers throughout the home ownership lifecycle. Our living database of homes provides a foundation on which we can build new consumer and professional marketplaces in other home-related categories.

Our growth strategies support our strategic priorities for the year ended December 31, 2017, which include growing the size of, and increasing engagement with, our consumer audience; continuing to grow our Premier Agent revenue; growing our emerging marketplaces, and maintaining our extraordinary company culture, which attracts and retains incredible people and motivates them to do their best work. Our growth strategies also support our strategic priorities as we look ahead to 2018, which include growing our audience size and increasing engagement across our brands; creating better experiences for consumers and more efficiency for our real estate industry partners; evolving our revenue models to better align our results with transactions and our industry partners' commissions; and attracting and retaining the best talent and leveraging our unique company culture focused on innovation as a competitive advantage.

Advertising Products and Services

We provide advertising products and services for real estate, rental and mortgage professionals that enable them to create and promote useful content for consumers.

Marketplace Advertising

Premier Agent and Premier Broker Program

Our Premier Agent and Premier Broker programs offer a suite of marketing and business technology products and services to help real estate agents and brokers achieve their advertising needs, while growing and managing their

businesses and brands. All Premier Agents and Premier Brokers receive access to a dashboard portal on our mobile application or website that provides individualized program performance analytics, self-service ad buying tools and our free customer relationship management, or CRM, tool that captures detailed information about each contact made with a Premier Agent or Premier Broker through our mobile and web platforms.

We offer our flagship Premier Agent advertising product and our Premier Broker advertising product on a cost per impression basis. Impressions are delivered when a sold advertisement appears on pages viewed by users

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of our mobile applications and websites. In 2016, we began testing and implementation of a new auction-based pricing method for our Premier Agent product by which we determine the cost per impression delivered in each zip code based upon the total amount spent by Premier Agents to purchase impressions in the zip code during the month. The cost per impression that we charge is dynamic as demand for impressions in a zip code increases or decreases, the cost per impression in that zip code may be increased or decreased. This new auction-based pricing method complements our self-serve account interface, which we introduced to Premier Agents over the course of 2016. The interface includes account management tools that allow agent advertisers to independently control their budgets, impression buys, and the duration of their advertising commitment. We began testing this auction-based pricing method for our Premier Agent product to better align our revenue opportunities with increasing traffic levels to our mobile and web platforms and leveraging increasing demand by real estate agents for access to home shoppers who use our mobile applications and websites. In the fourth quarter of 2016, we implemented this method broadly for all existing and new agent advertisers, including brokerages and other teams. With this auction-based pricing method, we recognize revenue related to our dynamic impression-based Premier Agent and Premier Broker products based on the contractual maximum spend on a straight-line basis during the contractual period over which the services are delivered. Our Premier Agent and Premier Broker products include multiple deliverables which are accounted for as a single unit of accounting, as the delivery or performance of the undelivered elements is based on traffic to our mobile applications and websites. In our history of building our real estate and other information marketplaces and product offerings, we have continually evaluated and utilized various pricing and value delivery strategies in order to better align our revenue opportunities with the growth in usage of our mobile and web platforms.

We continue to support some legacy Trulia Premier Agent products, which are primarily sold on a fixed fee subscription basis for periods that generally range from six months to 12 months. Subscription advertising revenue for Trulia's products included in Premier Agent revenue is recognized on a straight-line basis during the contractual period over which the services are delivered.

Our Premier Agent App gives agents the freedom to work anywhere by allowing them to manage their contacts, reviews and listings from their mobile device, and provides the ability to automatically add and manage leads from third party sources. The Premier Agent App is designed to make agents more efficient by giving them a fast, streamlined way to manage their incoming contacts from Zillow and Trulia, as well as the ability to manage their listings, reviews and their profile on Zillow and Trulia.

Instant Offers

In 2017, we began testing the Zillow Instant Offers marketplace, a way for homeowners to sell their homes quickly by providing them with offers from investors and a comparative market analysis from a local real estate agent, as an estimate for what the home might fetch on the open market. In addition to investors being required to use an agent, should a homeowner select an investor's offer, Zillow will also offer to connect them with a local agent to represent them throughout the transaction.

Mortgages

We offer two mortgage advertising products Long Form and Custom Quotes. In Zillow Group's Long Form platform, consumers answer a series of questions to find a local lender, and mortgage professionals receive contacts based on data such as location and customer reviews. In our Custom Quotes mortgage marketing platform, lending institutions display their mortgage rates directly to consumers who are shopping for refinance and purchase rates. In Custom Quotes, consumers request free, personalized quotes in response to their submission of limited anonymous data, such as specific loan amount, zip code, purchase price or estimated home value, and credit score. Consumers decide if and when to contact the mortgage professionals who provide quotes. For the year ended December 31, 2017, there were

approximately 22.7 million mortgage loan information requests submitted on Zillow Group platforms by consumers through Long Form and Custom Quotes. User-generated ratings and reviews of mortgage professionals are provided as a powerful tool to help consumers shop

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for their loans. Our Long Form and Custom Quote services are operated by our wholly owned subsidiary, Zillow Group Mortgages, Inc., a licensed mortgage broker, pursuant to a support services agreement.

Zillow Group Rentals

Zillow Group continues to develop its rental marketplace across mobile, web, and a diverse set of apps that serve both consumers and rental professionals. Zillow Group Rentals is the largest rental network on the internet and includes listing distribution across Zillow, Trulia and HotPads, reaching millions of rental shoppers each month. Zillow Group Rentals advertisers gain access to the leading technology and marketing platform that connects rental properties with consumer contacts.

Zillow Group New Construction

Zillow Group's new construction marketing platform, Promoted Communities, allows home builders to showcase their available inventory to our millions of in-market home shoppers across the web. Promoted Communities continues to drive discoverability for home builders through dynamic listings of their available lots, plans, and spec homes, while our Builder Boost products with Precision Targeting let home builders enhance their community's presence on Zillow, Trulia and Facebook®. Zillow Group marketing partners also receive exclusive access to robust data and consumer insights to help them make informed marketing decisions.

Display Advertising

Our display advertising primarily consists of graphical mobile and web advertising sold on a cost per thousand impressions or cost per click basis to advertisers promoting their brands on our mobile applications and websites and our partner websites and mobile applications, primarily in the real estate industry, including real estate brokerages, multi-family rental professionals, mortgage professionals and home services providers. We offer customers display advertising opportunities on our mobile applications through display ads that are optimized for the mobile experience, on our home page, and on individual web pages, through graphical displays and text links.

Information Products and Services

We provide consumers with information products and services to enable them to make intelligent decisions about homes.

Zestimate and Rent Zestimate

Our Zestimate and Rent Zestimate valuations are computed using complex, proprietary algorithms we have developed and refined through years of statistical analysis and technological development.

A Zestimate is our estimated current market value of a home. We generate Zestimates using a variety of information, including:

Physical attributes: location, lot size, square footage, number of bedrooms and bathrooms and many other details.

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Tax assessments: property tax information, actual property taxes paid, exceptions to tax assessments and other information provided in the tax assessors' records.

Prior and current transactions: actual sale prices over time of the home itself and comparable recent sales of nearby homes.

User data: data provided directly by millions of users of our mobile applications and websites.

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We use proprietary automated valuation models that apply advanced algorithms to analyze our data to identify relationships within a specific geographic area between home-related data and actual sales prices. We provide current home value estimates, or Zestimates, on approximately 100 million U.S. homes. Home characteristics, such as square footage, location or the number of bathrooms, are given different weights according to their influence on home sale prices in each specific geographic area over a specific period of time, resulting in a set of valuation rules, or models, that are applied to generate each home’s Zestimate.

To improve the accuracy of our Zestimates, our algorithms automatically remove or reconcile data that would otherwise inappropriately skew the valuation rules. In addition, our algorithms will automatically generate a new set of valuation rules based on the constantly changing universe of data included in our database. This allows us to provide timely home value information on a massive scale, updated daily. In 2017, we announced Zillow Prize, a machine learning competition to improve Zestimate accuracy, with a grand prize of up to \$1 million to the person or team who submits the most improved the Zestimate algorithm model.

We publicly disclose the accuracy of our Zestimates to further empower consumers in assessing a home’s value. The accuracy may be impacted by a variety of factors, including the amount of data about homes we have for a particular geographic area.

A Rent Zestimate is our estimated current monthly rental price of a home, computed using similar automated valuation models we have designed to address the unique attributes of a rental home. We estimate rental prices on approximately 100 million homes, including apartments, single-family homes, condominiums and townhomes. Our Rent Zestimates are updated daily.

Rich, Searchable Home-Related Data and Analysis

We provide consumers and real estate professionals with a rich set of home-related information. Through our mobile applications and websites, users can access detailed information about homes, including:

Value Information	Zestimate	Regional foreclosure statistics
	Zestimate Forecasts	Prior sale prices
	Rent Zestimate	Historical Zestimate values
	For sale price	Historical Rent Zestimate values
	Estimated mortgage payment	Zillow Home Value Index
	Estimated down payment	Zillow Home Value Index Forecasts
	Rental price	Tax-assessed value
	Make Me Move price	Property taxes paid
	Easy links to county assessor records	Price per square foot
	Regional 12-month home value forecast	
Home Details	Bedrooms	Number of stories
	Bathrooms	Number of units in building
	Square footage	Finished basement
	Lot size	Cooling system
	Year built	Heating system
	Property type	Heat source
	County	Fireplace

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Parcel number
Legal description
Construction quality
Location

Exterior material
Parking type
Garage size

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Neighborhood Information	School district	School ratings
	Elementary school	Crime data
	Middle school	Transit access
	High school	
For Sale Listing Details	Price	Days on Zillow or Trulia
	Listing agent information	MLS number
	Listing brokerage information	Foreclosure stage and type
	Link to listing source	Home overview description
	Property type and property features	Neighborhood name and description
	Open house dates and times	Coming Soon on market date
	Virtual tour	Community information for newly constructed homes in developments
	Video walkthroughs	Building name and information
	Home photos	3D tours
	Price reductions	
Rental Listing Details	Building name and number of stories	Property manager
	Rent amount and lease terms	Parking availability
	Application and deposit fees	Utilities and amenities
	Historical rental listings	3D tours

Consumers and real estate professionals can update property information by, for example, adding home photos and personalized information regarding the neighborhood or school district, creating exclusive home profiles not available anywhere else.

Our map-based user interface enables our users to search, navigate and zoom to areas of interest and find and compare home information quickly and efficiently from a variety of different perspectives across homes, neighborhoods, cities, counties and other geographic regions. Our consumer search experience supports complex search queries and filters across our data set of homes, allowing consumers to customize their searches and gain actionable insights.

Our team of economists and statisticians generates unbiased local and national real estate data and analysis on 916 metropolitan areas and approximately 16,800 individual neighborhoods that we provide to consumers and real estate, rental and mortgage professionals at no cost. This gives our users access to local market trends and data, such as home price cuts, list to sale price ratio and foreclosure data that was historically not easily obtained, if available at all. Users can compare these metrics across neighborhoods and different time periods using our real-time charting and filtering.

For Sale and Rental Listings

We provide comprehensive for sale and rental listings through relationships with real estate brokerages, real estate listings aggregators, multiple listing services, apartment management companies, home builders and other third parties. In addition, we provide consumers with access to exclusive home listings, such as our Make Me Move listings, which are a homeowner's posted price at which they would be willing to move. We also show listings that may not be available on other sources, including for sale by owner, pre-market inventory, including our Coming Soon listings, and rental listings. Real estate agents and landlords may feature and gain more exposure for their listings through our advertising products.

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Marketplace of Real Estate Agents

We present consumers with ratings and contact information for the listing agent and local buyer's agents alongside home profiles and listings for homes to assist them in evaluating and selecting the real estate agent best suited for them. We enhance this offering by providing an online professional directory for consumers to search and contact real estate professionals that they might wish to engage. Our directory includes rich profiles of real estate professionals, including more than 3.0 million ratings and reviews provided by our users, allowing consumers to evaluate these agents based on a number of criteria, including neighborhood specialization and number of listings.

Marketplace of Mortgage Professionals

In our mortgages marketplace, consumers can answer a series of questions to find a local lender, and mortgage professionals receive contacts based on data such as location and customer reviews, or consumers can anonymously request free, personalized mortgage quotes from consumer-rated-and-reviewed mortgage professionals. Consumers can then choose to contact those mortgage professionals at their discretion. For the year ended December 31, 2017, there were approximately 22.7 million mortgage loan information requests submitted on Zillow Group platforms by consumers. More than half of consumers who submit a loan information request do so on a mobile device. As of December 31, 2017, we had published approximately 495,000 reviews of mortgage professionals submitted by our consumers.

Mobile Access

We operate one of the most popular suites of mobile real estate applications with more than fifty applications across all major mobile platforms. Our mobile real estate applications provide consumers and real estate, rental and mortgage professionals with location-based access to many of our products and services, including Zestimates, Rent Zestimates, for sale and rental listings and extensive home-related data. Through our mobile applications, for example, a consumer can learn about the home's for-sale price, Zestimate, number of bedrooms, square footage and past sales, as well as similar information about surrounding homes. The consumer can call a real estate professional through our mobile applications to get more information or schedule a showing. For example, on our flagship Zillow brand, during December 2017, nearly 630 million homes were viewed on a mobile device, which equates to 234 homes per second.

Marketing

We believe Zillow Group has considerable opportunity to increase brand awareness and grow traffic through product development, targeted advertising programs and strategic partnerships. As such, we opportunistically advertise to consumers and professionals in various online and offline channels that have tested well for us and pursue strategic partnerships that drive traffic and brand awareness for Zillow Group.

At Zillow Group, marketing begins with effective product development, which then becomes amplified by impactful brand advertising and marketing communications. We create immersive consumer products that people want to use frequently, talk about and share. The engaging nature of our products enables us to execute compelling advertising campaigns integrated with our robust and viral communications program, which together comprise the primary drivers of our brand awareness and traffic acquisition efforts. For example, for our flagship Zillow brand, we launched our consumer brand with communications at the core of our marketing strategy. Next, after years of vigorous field testing, we began large-scale national advertising in early 2013 on television and across other complementary channels, which has continued through the year ended December 31, 2017. In part as a result of these advertising efforts, traffic to Zillow Group brands' mobile applications and websites reached a seasonal peak of more than 187 million monthly unique users in July 2017, an increase of 10% year over year. Visits to Zillow Group brands' mobile applications and

websites, including Zillow, Trulia, StreetEasy and RealEstate.com, increased 19% to 6,314.4 million for the year ended December 31, 2017 compared to the year ended December 31, 2016. The majority of our traffic and brand awareness comes direct, not dependent on search engines, with demonstrated consumer intent to visit the Zillow Group brands.

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The communications team for our flagship Zillow brand includes former print and broadcast journalists who have established Zillow Group as an authoritative source for information on a broad range of home and real estate-related subjects. A typical week includes commentary from our real estate experts across dozens of national print and broadcast media outlets, guest opinion pieces or blog posts by our chief economists, and wide-ranging national and local media coverage of Zillow Group products, listings, data and consumer tips. We also produce considerable home and real estate-related content on our blogs that are syndicated across dozens of prominent media sites with content ranging from real estate market trends, to home financing tips, to celebrity real estate listings.

In September 2017, we released the second annual Zillow Group Report on Consumer Housing Trends, which highlights our latest consumer research. The report has garnered the attention of media outlets such as the *Wall Street Journal*, *New York Times*, *Fox Business*, *Associated Press* and *Money Magazine* and serves to establish Zillow Group as the authority on residential real estate consumers and their needs, aspirations and challenges.

We focus substantial public relations effort around the marketing of our Zillow Real Estate Market Reports, which are in-depth reports produced by our economics and analytics bureau for 905 U.S. markets. Data is released on a monthly and quarterly basis, and the data is widely used by government entities such as the Federal Reserve and Congressional Oversight Panel, as well as regularly featured in respected media outlets such as the *Wall Street Journal*, *New York Times*, *Bloomberg*, *Reuters* and across numerous national network and cable news shows including CNBC, CNN, Fox News and Bloomberg. We believe the considerable effort we have spent on public relations and social media has allowed us to build large and credible brands.

Our living database of homes creates significant opportunities for home-ownership lifecycle marketing. A typical person will at various times in life be a renter, buyer, homeowner, mortgage refinancer or seller, and this presents opportunities to communicate with consumers over many years before, during and after a transaction. We actively communicate with our users through email and social media channels.

Sales, Consumer Care and Customer Support

Our sales teams are responsible for generating advertising customers across our mobile applications and websites.

Our largest sales teams sell our Premier Agent and Premier Broker products to real estate agents, and are located in Seattle, Washington, Denver, Colorado, Irvine, California, and New York, New York. We also have sales teams in Seattle, Washington, Denver, Colorado, New York, New York, and Irvine, California that sell our rental products to rental professionals. In addition, we have sales teams in Seattle, Washington and Lincoln, Nebraska that support sales in our mortgage marketplaces. We also have sales teams in Seattle, Washington, Denver, Colorado, and San Francisco, California that sell our new construction marketing solutions. We attract customers through a combination of outbound calling and inbound customer requests generated from our websites and event marketing activities. We also maintain field sales teams in San Francisco, California and New York, New York to specifically target larger advertising customers in the real estate and related content categories, such as real estate brokerages, home builders, lenders and home service providers, as well as advertisers in the telecommunications, automotive, insurance and other industries.

We believe that consumer care and customer support are important to our success. Our consumer care and customer support teams are located in Seattle, Washington and Denver, Colorado. Our customer support team responds to commercial and technical issues from our advertisers, and our consumer care team responds to consumer issues from our user community.

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Technology and Infrastructure

Zillow Group is a data- and technology-driven company. Our technical infrastructure, mobile applications and websites are built to provide consumers and real estate, rental and mortgage professionals with access to rich real estate data and powerful online tools to help them accomplish their home-related goals. Our success depends on our ability to innovate and enhance our products and services, adapt to changes in technology, and support new devices and operating systems.

Research and development costs are expensed as incurred and are recorded in technology and development expenses. For the years ended December 31, 2017, 2016 and 2015, expenses attributable to research and development for our business totaled \$193.0 million, \$170.1 million and \$116.2 million, respectively. We expect to continue making significant investments in research and development as we explore new ways to deliver greater value to our consumer users and advertiser customers. For information about our research and development costs, see Note 2 of the accompanying notes to our consolidated financial statements included within this annual report.

Many of our services are available through real-time web-based application programming interfaces that allow our information to be easily integrated into third-party websites. We provide HTML and JavaScript-based widgets to allow easy integration of Zillow Group information onto other websites, with little custom programming. Our technology platform is built using industry-leading third-party and internally developed software as well as open source technologies. This combination allows for rapid development and release of high-performance software in a cost-effective and scalable manner. Our mobile applications and websites are designed to have high availability, from the internet connectivity providers we choose, to the servers, databases and networking hardware that we deploy. We design our systems so that the failure of any individual component is not expected to affect the overall availability of our platform. We also leverage content delivery networks and use other third-party cloud computing services, including map-related and ad serving services, to ensure fast and local access to content. We employ a host of encryption, antivirus, firewall, monitoring, and patch-management technology to protect and maintain our systems.

Our Zillow technical infrastructure, mobile applications and websites are hosted at a third-party facility located in the Seattle area. We manage our Trulia mobile applications and website from a shared data center in Santa Clara, California. Additionally, we utilize third-party web services for cloud computing and storage to assist in service growth and redundancy.

Intellectual Property

We protect our intellectual property through a combination of trademarks, trade dress, domain names, copyrights, trade secrets and patents, as well as contractual provisions and restrictions on access to our proprietary technology.

Our trademarks registered in the United States and several other jurisdictions include, but are not limited to, Zillow, Trulia, Zestimate, Premier Agent, Make Me Move, Mortech, Marksman, Hotpads, StreetEasy, dotloop, Way Home, Naked Apartments, New Home Feed, Instant Offers, the Z in a house logo, the Trulia marker logo, as well as logos that correspond with several of our other trademarks. We also have filed other trademark applications in the United States and certain other jurisdictions and will pursue additional trademark registrations to the extent we believe it will be beneficial and cost-effective.

We are the registered holder of a variety of domestic and international domain names that include, but are not limited to, Zillowgroup.com, Zillow.com, Trulia.com, RealEstate.com, Mortech.com, HotPads.com, Streeteasy.com, DotLoop.com, Retsly.com, NakedApartments.com, BridgeInteractive.com, NewHomeFeed.com and other similar variations. We view the strength of brand awareness and loyalty with respect to both our consumer- and

business-facing brands as a key differentiator. As a result, our ability to protect these intellectual property assets is very important to our business.

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We have 23 patents of varying lengths issued in the United States and internationally. These patents cover proprietary techniques that relate to determining a current value for a real estate property, performing summarization of geographic data points in response to zoom selection, the incorporation of individual aerial images and incorporating visual information into a master planar image, the collection, storage and display of home attribute values, providing for a multi-faceted search, and other proprietary techniques relevant to our products and services. Our Zestimate home valuation, for example, which we consider to be a significant competitive advantage with respect to consumer engagement, is currently protected by a patent. We have 51 patent applications pending in the United States and internationally, which seek to cover proprietary techniques relevant to our products and services. We intend to pursue additional patent protection to the extent we believe it will be beneficial and cost-effective.

In addition to the protection provided by our intellectual property rights, we enter into confidentiality and proprietary rights agreements with our employees, consultants, contractors and business partners. Our employees and contractors are also subject to invention assignment provisions. We further control the use of our proprietary technology and intellectual property through provisions in both our general and product-specific terms of use on our mobile applications and websites.

Competition

We face competition to attract consumers to our mobile applications and websites and to attract advertisers to purchase our advertising products and services.

Competition for Consumers

We compete for the attention of consumers with companies that operate, or could develop, national and local real estate and rental listings search, as well as mortgage lender mobile applications and websites. We compete for consumers primarily on the basis of the quality of the consumer experience, the utility of the data and services we provide, the breadth, depth and accuracy of information, and brand awareness and reputation. We believe we compete favorably on these factors.

Competition for Advertisers

We compete for advertising customers, such as real estate professionals, with media companies, including companies dedicated to providing mobile and web-based real estate, rental and mortgage information and services to real estate professionals and consumers, local brokerage sites and major internet portals, general search engines and social media sites, as well as other online companies. We also compete for a share of advertisers' overall marketing budgets with traditional media such as newspapers, television, magazines, and home/apartment guide publications, particularly with respect to advertising dollars spent at the local level by real estate agents, mortgage professionals, property managers or rental agents to advertise their qualifications or listings. We compete for advertising revenue based on perceived return on investment and perceived transaction readiness and overall quality of consumer leads, the effectiveness and relevance of our advertising products, pricing structure and our ability to effectively deliver types of ads to targeted demographics. We believe we compete favorably on these factors.

Government Regulation

We are affected by laws and regulations that apply to businesses in general, as well as to businesses operating on the internet and through mobile applications. This includes a continually expanding and evolving range of laws, regulations and standards that address information security, data protection, privacy, data collection and advertising, among other things. We are also subject to laws governing marketing and advertising activities conducted by

telephone, email, mobile devices, and the internet, including the Telephone Consumer Protection Act, the Telemarketing Sales Rule, the CAN-SPAM Act, and similar state laws. In addition, some of our mortgage advertising products are operated by our wholly owned subsidiary, Zillow Group Mortgages, Inc., a licensed mortgage broker, pursuant to a support services agreement. Though we do not take mortgage

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applications or make loans or credit decisions in connection with loans, Zillow Group Mortgages, Inc. is subject to stringent state and federal laws and regulations and to the scrutiny of state and federal government agencies as a licensed mortgage broker.

By providing a medium through which users can post content and communicate with one another, we may also be subject to laws governing intellectual property ownership, obscenity, libel, and privacy, among other issues. In addition, the real estate agents, mortgage professionals, banks, property managers, rental agents and some of our other customers and advertisers on our mobile applications and websites are subject to various state and federal laws and regulations relating to real estate, rentals and mortgages. We endeavor to ensure that any content created by Zillow Group is consistent with such laws and regulations by obtaining assurances of compliance from our advertisers and consumers for their activities through, and the content they provide on, our mobile applications and websites. The real estate, mortgages, and rentals industries are subject to significant state and federal regulation; though we provide advertising services and technology solutions to real estate, mortgages, and rentals professionals, certain of our activities may be deemed to be covered by these industry regulations. Since the laws and regulations governing real estate, rentals and mortgages are constantly evolving and striving to keep pace with innovations in technology and media, it is possible that we may have to materially alter the way we conduct some parts of our business activities or be prohibited from conducting such activities altogether at some point in the future.

Employees

As of December 31, 2017, we had 3,181 full-time employees.

Where You Can Find More Information

Our filings with the Securities and Exchange Commission, or SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, are available on the Investors section of our website at www.zillowgroup.com, free of charge, as soon as reasonably practicable after the electronic filing of these reports with the SEC. The information contained on our website is not a part of this Annual Report on Form 10-K or any other document we file with the SEC.

Investors and others should note that Zillow Group announces material financial information to its investors using its press releases, SEC filings and public conference calls and webcasts. Zillow Group intends to also use the following channels as a means of disclosing information about Zillow Group, its services and other matters and for complying with its disclosure obligations under Regulation FD:

Zillow Group Investor Relations Webpage (<http://investors.zillowgroup.com>)

Zillow Group Investor Relations Blog (<http://www.zillowgroup.com/ir-blog>)

Zillow Group Twitter Account (<https://twitter.com/zillowgroup>)

The information Zillow Group posts through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following Zillow Group's press releases, SEC filings and public conference calls and webcasts. This list may be updated from time to time. The information we post through these channels is not a part of this Annual Report on Form 10-K or any other document we file with the SEC, and the inclusion of our

website addresses and Twitter account are as inactive textual references only.

Item 1A. Risk Factors.

Our business is subject to numerous risks. You should carefully consider the following risk factors, as any of these risks could harm our business, results of operations, and future financial performance. Recovery pursuant to our insurance policies may not be available due to policy definitions of covered losses or other factors, and available insurance may be insufficient to compensate for damages, expenses, fines, penalties, and other losses we may incur as a result of these and other risks. In addition, risks and uncertainties not currently known to us or

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that we currently deem to be immaterial may materially adversely affect our business, financial condition and operating results. If any of these risks occur, the trading price of our common and capital stock could decline, and you could lose all or part of your investment.

Risks Related to Our Business and Industry

If Real Estate, Rental and Mortgage Professionals, Home Builders or Other Advertisers Reduce or End Their Advertising Spending With Us or if We Are Unable to Effectively Manage Advertising Inventory or Pricing, Our Business Would Be Harmed.

Our current financial model depends on revenue generated primarily through sales of advertising products and services to real estate agents and brokerages, rental professionals, mortgage professionals, home builders, and other advertisers in categories relevant to real estate. Our ability to attract and retain advertisers, and ultimately to generate advertising revenue, depends on a number of factors, including how successfully we can:

increase the number of consumers who use our products and services, provide them with tools to promote engagement between real estate market participants, and enhance their user experience so we can retain them;

offer an attractive return on investment to our advertisers for their advertising spending with us;

continue to develop our advertising products and services to increase adoption by and engagement with advertising customers;

keep pace with and anticipate changes in technology to provide industry-leading products and services to advertisers and consumers; and

compete effectively for advertising dollars with other online media companies.

Premier Agent revenue, derived from our flagship Premier Agent program and Premier Broker program, accounted for 71% of total revenue for the year ended December 31, 2017. This level of revenue concentration suggests that even modest decreases in individual agent advertiser spending across the advertiser population, caused by actual or perceived decreases to return on investment, preference for a competitive service, or other factors, could have a significant negative impact on our results of operations. We do not have long-term contracts with most of our advertisers. Our advertisers could choose to modify or discontinue their relationships with us with little or no advance notice. For example, our self-serve account interface for Premier Agent advertisers allows agent advertisers to independently control the duration of their advertising commitments. We may not succeed in retaining existing advertisers' spending or capturing a greater share of such spending if we are unable to convince advertisers of the effectiveness or superiority of our products as compared to alternatives, including traditional offline advertising media such as television and newspapers. In addition, we continually evaluate and utilize various pricing and value delivery strategies in order to better align our revenue opportunities with the growth in usage of our mobile and web platforms. In 2016, for example, we implemented a new auction-based pricing method for our Premier Agent product. Future changes to our pricing methodology for advertising services or product offerings may cause advertisers to reduce or

end their advertising with us or negatively impact our ability to manage revenue opportunities. If advertisers reduce or end their advertising spending with us, or if we are unable to effectively manage inventory and pricing, our advertising revenue and business, results of operations and financial condition would be harmed.

If We Do Not Innovate or Provide High-Quality Products and Services on Mobile and the Web That Are Attractive to Our Users and to Our Advertisers, Our Business Could Be Harmed.

Our success depends on our continued innovation to provide new, and improve upon existing, products and services that make our mobile applications, websites and other tools useful for consumers and real estate, rental and mortgage professionals, and attractive to our advertisers. As a result, we must continually invest significant resources in research and development to improve the attractiveness and comprehensiveness of our products and

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services, adapt to changes in technology, and support new devices and operating systems. If we are unable to provide products and services that users, including real estate professionals, want to use, on the devices they prefer, then users may become dissatisfied and use competitors' mobile applications, websites and tools. If consumers begin to access real estate through other media and we fail to innovate, our business may be negatively impacted. If we are unable to continue offering high-quality, innovative products and services, we may be unable to attract additional users and advertisers or retain our current users and advertisers, which could harm our business, results of operations and financial condition.

We Face Competition for Consumers in the Real Estate Category, Which Could Impair Our Ability to Attract Users of Our Mobile Applications and Websites, Which Would Harm Our Business, Results of Operations and Financial Condition.

Our business model depends on our ability to continue to attract consumers to our mobile applications and websites and enhance their engagement with our products and services in a cost-effective manner. New entrants continue to join the category at an increasingly rapid pace. Our existing and potential competitors include companies that operate, or could develop, national and local real estate, rental, new construction and mortgage mobile applications and websites. Such competitors range from companies offering traditional offline advertising media, like newspapers, to new mobile- or web-only technology companies. These companies could devote greater financial, technical and other resources than we have available to sales, advertising, or research and development, have a more accelerated time frame for deployment, or leverage their existing user bases and proprietary technologies to provide products and services that consumers might view as superior to our offerings. Any of our future or existing competitors may introduce different solutions that attract consumers or provide solutions similar to our own but with better branding or marketing resources. If we are not able to continue to attract consumers to our mobile applications and websites, our business, results of operations and financial condition would be harmed.

We May Not Be Able to Compete Successfully Against Our Existing or Future Competitors in Attracting Advertisers, Which Could Harm Our Business, Results of Operations and Financial Condition.

We face intense competition from traditional and online or mobile media sources to attract advertisers. Online and on mobile, we compete against websites dedicated to providing real estate, rental, new construction, and mortgage information and services to real estate professionals and consumers, major internet portals, general search engines, e-commerce, and social media sites, as well as other technology and media companies. We also compete for a share of advertisers' overall marketing budgets with traditional media such as television, magazines, newspapers and home/apartment guide publications, particularly with respect to advertising dollars spent at the local level by real estate professionals to advertise their qualifications and listings. Large companies with significant brand recognition have large numbers of direct sales personnel and substantial proprietary advertising inventory and web traffic, which may provide a competitive advantage. To compete successfully for advertisers against future and existing competitors, we must continue to invest resources in developing our advertising platform and proving the effectiveness and relevance of our advertising products and services. Pressure from competitors seeking to acquire a greater share of our advertisers' overall marketing budget could adversely affect our pricing and margins, lower our revenue, and increase our research and development and marketing expenses. If we are unable to compete successfully against our existing or future competitors, our business, results of operations or financial condition would be harmed.

We Compete in a Dynamic Industry, and We May Invest Significant Resources to Pursue Strategies and Develop New Products and Services That Do Not Prove Effective.

The industry for residential real estate technology, information marketplaces, services, and advertising is dynamic, and the expectations and behaviors of consumers and professionals shift constantly and rapidly. We continue to learn

a great deal about the behaviors and objectives of residential real estate market participants as the industry evolves and are investing significant resources to develop, test, and launch products and services to

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address the needs of the market and improve the homebuying, selling, financing, building, and renting experience. Changes or additions to our products and services may not attract or engage our users, and may reduce confidence in our products and services, negatively impact the quality of our brands, upset other industry participants, expose us to increased market or legal risks, subject us to new laws and regulations, or otherwise harm our business. Our product Zillow Instant Offers, for example, which allows home sellers to receive a comparative market analysis from a Premier Agent alongside non-binding offers from institutional buyers, may not engage home sellers as we think it will. Further, if we do not realize the benefits we expect from strategic relationships we enter into, including for example, the generation of additional advertising revenue opportunities, our business could be harmed. We may not successfully anticipate or keep pace with industry changes, and we may invest considerable financial, personnel, and other resources to pursue strategies that do not, ultimately, prove effective such that our results of operations and financial condition may be harmed.

We Depend on the Real Estate Industry, and Changes to That Industry, Including to Supply and Demand in the Real Estate Market or Mortgage Lending Regulation, Could Reduce the Demand for, or Restrict Our Ability to Provide, Our Products and Services.

Our financial results significantly depend on real estate market participants using our products and services. Real estate shopping patterns depend on the overall health of the real estate market. Changes to the regulation of the real estate industry, including mortgage lending, may negatively impact the prevalence of home ownership and the ability of market participants to close transactions.

Changes to the real estate industry, including to supply and demand in the real estate market, regulation of rental unit offerings, or mortgage interest rates, could reduce demand for our services. In addition, real estate, rental, and mortgage professionals are subject to comprehensive, and rapidly evolving, federal, state, and local laws and regulations which may cause them to significantly alter, decrease, or terminate their purchase of our products and services. For example, as described in Part I, Item 3 Legal Proceedings the Consumer Financial Protection Bureau (CFPB) investigated our co-marketing program for real estate agent and mortgage advertisers in 2015 through 2017, and settlement discussions with the CFPB are ongoing. Seasonality, micro- and macroeconomic factors, government regulation, tax laws, and other factors may decrease consumer usage as well as sales to our advertisers and other customers, which could harm our results of operations and financial condition.

Certain of our mortgage marketing products are operated by our wholly owned subsidiary, Zillow Group Mortgages, Inc., a licensed mortgage broker. Though we do not take mortgage applications or make loans or credit decisions in connection with loans, Zillow Group Mortgages, Inc. is subject to stringent state and federal laws and regulations and to the scrutiny of state and federal government agencies as a licensed mortgage broker. Further, due to the geographic scope of our operations and the nature of the services we provide, we may be required to obtain and maintain additional real estate brokerage and mortgage broker licenses in certain states in which we operate. In connection with such licenses, we are required to designate individual licensed brokers of record. We cannot assure you that we, or our licensed personnel, are and will remain at all times, in full compliance with state real estate and mortgage broker licensing laws and regulations and we may be subject to fines or penalties in the event of any non-compliance. If in the future a state agency were to determine that we are required to obtain a real estate or mortgage brokerage license in that state in order to receive payments from real estate or mortgage professionals, or if we lose an existing license or are otherwise found to be in violation of a law or regulation, we may be subject to fines or legal penalties or our business operations in that state may be suspended or prohibited. Any failure to comply with applicable laws and regulations may limit our ability to expand into new markets, offer new products or continue to operate in one or more of our current markets.

Natural Disasters and Catastrophic Events May Disrupt Real Estate Markets and our Business.

The occurrence of a significant natural disaster or other catastrophic event, such as earthquake, hurricane, fire, flood, terrorist attack or other similar event, may damage or disrupt our operations, local and regional real

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estate markets or economies, and negatively impact our business, results of operations and financial condition. Our largest offices are located in Seattle, Washington, and San Francisco, California, and an earthquake or natural disaster in either city could disrupt our engineering and sales teams and equipment critical to the operation of our business. Similarly, a significant natural disaster or other catastrophic event in any major U.S. city could negatively impact a large number of our advertisers and users, and cause a decrease in our revenue or traffic. For example, in connection with the hurricanes and wildfires that occurred during the second half of 2017, we worked closely with our Premier Agents and other advertisers in affected areas to help manage their advertising budgets, and we provided relief initiatives, which included billing credits and other forms of advertiser assistance. We also experienced a temporary decline in traffic to our mobile applications and websites from consumers in impacted areas during September 2017. Though our relief initiatives and the temporary decline in traffic did not have a material impact on our results of operations and financial condition for 2017, our results of operations and financial condition may be negatively affected by natural disasters in the future.

We May Not Be Able to Maintain or Establish Relationships With Real Estate Brokerages, Real Estate Listing Aggregators, Multiple Listing Services, Property Management Companies, Home Builders and Other Third-Party Listing Providers, Which Could Limit the Information We Are Able to Provide to Our Users.

Our ability to attract users to our mobile applications, websites and other tools depends to some degree on providing timely access to comprehensive and accurate for-sale, new construction and rental listings. To provide these listings, we maintain relationships with real estate brokerages, real estate listing aggregators, multiple listing services (MLSs), property management companies, home builders, other third-party listing providers, and homeowners and their real estate agents to include listing data in our services. Many of our agreements with real estate listing providers are short-term agreements that may be terminated with limited notice. Many of our competitors and other real estate websites have similar access to MLSs and listing data, and may be able to source real estate information faster or more efficiently than we can. Another industry participant or group could create a new listings data service, which could impact the relative quality or quantity of information of our listing providers. The loss of existing relationships with MLSs and other listing providers, whether due to termination of agreements or otherwise, changes to our rights to use or timely access listing data, or an inability to continue to add new listing providers or changes to the way real estate information is shared, may negatively impact our listing data quality. This could reduce user confidence in the sale and rental data we provide and make us less popular with consumers, which could harm our business, results of operations and financial condition.

We May Not Be Able to Maintain or Establish Relationships With Data Providers, Which Could Limit the Information We Are Able to Provide to Our Users and Impair Our Ability to Attract or Retain Users.

We obtain real estate data, such as transaction history, property descriptions, tax-assessed value and property taxes paid, under licenses from third-party data providers. We use this data to enable the development, maintenance and improvement of our marketplace and information services, including Zestimates, Rent Zestimates and our living database of homes. We have invested significant time and resources to develop proprietary algorithms, valuation models, software and practices to use and improve on this specific data. We may be unable to renew our licenses with these data providers, enter into new data license agreements, or we may be able to do so only on terms that are less favorable to us, which could harm our ability to continue to develop, maintain and improve these information services and could harm our business, results of operations and financial condition.

If Our Data Integrity Suffers Real or Perceived Harm, Consumers and Advertisers May Decrease Use or Cease Using Our Products and Services, and We May Be Subject to Legal Liability.

Because homes represent significant investments, and many consumer decisions regarding homes are data-driven, our ability to attract and retain users and advertisers to our information products and services is dependent upon our ability to publish, and reputation for publishing, accurate and complete residential real estate information through our mobile applications and websites. As discussed above, a significant amount of the data

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we publish on our mobile applications and websites are licensed from third parties, and we have limited ability to control the quality of the information we receive from them. We also publish a significant amount of user-generated content, and our tools and processes designed to ensure the accuracy, quality, and legality of such content may not always be effective. Data we generate independently are subject to error, unauthorized modification by way of third-party viruses, and other factors. As the volume of data we publish increases, and potential threats to data quality become more complex, the risk of harm to our data integrity also increases. If our data integrity suffers real or perceived harm, we may be subject to legal liability, and consumers and advertisers may decrease their use or cease using our products and services, which would harm our results of operations and financial condition.

Our Dedication to Making Decisions Based Primarily on the Best Interests of Consumers May Cause Us to Forgo Short-Term Gains.

Our guiding principle is to build our business by making decisions based primarily on the best interests of consumers, which we believe has been essential to our success in increasing our user growth rate and engagement and has served the long-term interests of our company and our shareholders. In the past, we have forgone, and we will in the future forgo, certain expansion or short-term revenue opportunities that we do not believe are in the best interests of consumers, even if such decisions negatively impact our short-term results of operations. In addition, our philosophy of putting consumers first may negatively impact our relationships with our existing or prospective advertisers. This could result in a loss of advertisers, which could harm our revenue and results of operations. For example, we believe that some real estate agents have chosen not to purchase our Premier Agent advertising product because we display a Zestimate on their for-sale listings. We believe, however, that it is valuable to consumers to have access to a valuation starting point on all homes and so we display a Zestimate on every home in the Zillow database for which we have sufficient data to produce the Zestimate. Our consumer focus may also negatively impact our relationships with real estate brokerages, MLSs, and other industry participants on whom we rely for listings information. Our product Zillow Instant Offers, for example, may be perceived as impinging upon the business models of real estate agents and brokerages, which may cause them to terminate their listings agreements with us or, with respect to brokerages, cease advertising with us. Such risks could have a materially negative impact on our results of operations. Our principle of making decisions based primarily on the best interests of consumers may not result in the long-term benefits that we expect, in which case our user traffic and engagement, business and results of operations could be harmed.

We Are Subject to Disputes Regarding the Accuracy or Display of Our Zestimates and Rent Zestimates.

We provide our users with Zestimate and Rent Zestimate home and rental valuations. Zestimates are our estimated current market values of a home based on our proprietary automated valuation models that apply advanced algorithms to analyze our data; they are not appraisals. A Rent Zestimate is our estimated current monthly rental price of a home, using similar automated valuation models that we have designed to address the unique attributes of rental homes. We are, from time to time, involved in disputes with property owners and others who disagree with the accuracy or display of a Zestimate or Rent Zestimate, and such disputes may result in costly litigation in the future. Further, revisions to our automated valuation models, or the algorithms that underlie them, poor data quality, or other factors may cause certain Zestimates or Rent Zestimates to vary from expectations for those Zestimates or Rent Zestimates. Any such dispute or variation in Zestimates or Rent Zestimates could result in distraction from our business or potentially harm our reputation and financial condition.

We Rely on Internet Search Engines and Mobile Application Marketplaces to Connect with Consumers.

We rely on organic traffic generated from search engines like Google and Bing to attract users to our websites. This organic traffic is dependent in part upon the way in which links to and information from our websites are featured on search engine result pages. The ranking and other display features of links to and information from our websites is

impacted by a variety of factors, many of which are not within our control, such

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as a change to the search engine ranking algorithm. We devote significant time and resources to digital marketing initiatives, such as search engine optimization, to improve our search result rankings and increase visits to our sites. These marketing efforts may prove unsuccessful due to a variety of factors, including increased costs to use online advertising platforms, ineffective campaigns and increased competition. We also rely on mobile application marketplaces like Apple's App Store and Google Play to connect users with our mobile applications. These marketplaces may change in a way that negatively affects the prominence of or ease with which users can access our mobile applications. Such changes to Internet search engines or mobile application marketplaces may adversely impact our ability to connect with consumers, which could have a material negative effect on our results of operations and financial condition.

We May Be Unable to Increase Awareness of the Zillow Group Brands Cost-effectively, Which Could Harm Our Business.

We believe the Zillow Group brands, including Zillow and Trulia, are key assets of our company. Awareness and perceived quality and differentiation of the Zillow Group brands are important aspects of our efforts to attract and expand the number of consumers who use our mobile applications and websites. Should the competition and costs for awareness and brand preference increase among providers of mobile or online real estate information, we may not be able to successfully maintain or enhance the strength of our brand. We expect to continue to invest in our paid advertising to increase brand awareness and grow traffic. Paid advertising may not continue to be successful or cost-effective. If we are unable to maintain or enhance user and advertiser awareness of our brands cost-effectively, or if we are unable to recover our additional marketing and advertising costs through increased usage of our products and services, our business, results of operations and financial condition could be harmed.

If We Fail to Manage Our Growth and Multi-Brand Portfolio Effectively, Our Reputation, Results of Operations and Business Could Be Harmed.

We have experienced rapid and significant growth in our headcount and related operations, including as a result of the February 2015 Trulia acquisition and other acquisitions. We have also acquired or launched several new business-to-consumer and business-to-business brands in recent years, including the 2017 acquisition of New Home Feed, a listing management technology company, and launch of realestate.com, a consumer-facing website for residential real estate. This growth adds complexity to business operations, including internal controls and compliance, and places substantial demand on management and our operational infrastructure. As we continue to grow, we must effectively integrate, develop and motivate a large number of new employees, while maintaining the beneficial aspects of our company culture, and successfully manage a diverse portfolio of brands. If we do not manage the growth of our business and operations effectively, the quality of our services and efficiency of our operations could suffer, which could harm our brand, results of operations and overall business.

We Rely on the Performance of Highly Skilled Personnel, and if We Are Unable to Attract, Retain and Motivate Well-Qualified Employees, Our Business Could Be Harmed.

We believe our success has depended, and continues to depend, on the efforts and talents of our management and our highly skilled team of employees, including our software engineers, statisticians, marketing professionals and advertising sales staff. Our future success depends on our continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. The loss of any of our senior management or key employees could materially adversely affect our ability to build on the efforts they have undertaken and to execute our business plan, and we may not be able to find adequate replacements. The market for highly skilled personnel is very competitive. We cannot ensure that we will be able to retain the services of any members of our

senior management or other key employees. If we do not succeed in attracting well-qualified employees or retaining and motivating existing employees in a cost-effective manner, our business could be harmed.

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We May Make Acquisitions and Investments, Which Could Result in Operating Difficulties, Dilution and Other Harmful Consequences.

We continue to evaluate a wide array of potential strategic opportunities, including acquisitions and investments. For example, we acquired HREO and New Home Feed, and purchased an equity interest in a privately held corporation, in the year ended December 31, 2017. Any transactions that we enter into could be material to our financial condition and results of operations. The acquisitions may not result in the intended benefits to our business, and we may not successfully evaluate or utilize the acquired products, technology, or personnel, or accurately forecast the financial impact of an acquisition transaction. The process of integrating an acquired company, business or technology could create unforeseen operating difficulties and expenditures. The areas where we face risks include:

diversion of management time and focus from operating our business to acquisition integration challenges;

consumer and industry acceptance of products and services offered by the acquired company;

implementation or remediation of controls, procedures and policies at the acquired company;

coordination of product, engineering and sales and marketing functions;

retention of employees from the acquired company;

liability for activities of the acquired company before the acquisition;

litigation or other claims arising in connection with the acquired company; and

impairment charges associated with goodwill and other acquired intangible assets.

For example, during the year ended December 31, 2017, we recorded a non-cash impairment for \$174.0 million related to the \$351.0 million indefinite-lived intangible asset that we recorded in connection with our February 2015 acquisition of Trulia for Trulia's trade names and trademarks. For additional information about the non-cash impairment, see Note 9 to our consolidated financial statements.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities, and harm our business, results of operations and financial condition.

Our Fraud Detection Processes and Information Security Systems May Not Successfully Detect All Fraudulent Activity by Third Parties Aimed at Users of Our Mobile Applications and Websites, Which Could Adversely Affect Our Reputation and Business Results.

Third-party actors have attempted in the past, and may attempt in the future, to conduct fraudulent activity by engaging with users of our mobile applications and websites by, for example, posting fake real estate listings on our sites and attempting to solicit personal information or money from users. Though we have sophisticated fraud detection processes and have taken other measures to identify fraudulent activity on our mobile applications and websites, we may not be able to detect and prevent all such activity. Persistent or pervasive fraudulent activity may cause users and advertisers to lose trust in us and decrease or terminate their usage of our products and services, thereby harming our business and results of operations.

We Are Subject to a Number of Risks Related to the Credit Card and Debit Card Payments We Accept.

We accept payments through credit and debit card transactions. For credit and debit card payments, we pay interchange and other fees, which may increase over time. An increase in those fees may require us to increase the prices we charge and would increase our operating expenses, either of which could harm our business, financial condition and results of operations.

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We depend on processing vendors to complete credit and debit card transactions. If we or our processing vendors fail to maintain adequate systems for the authorization and processing of credit card transactions, it could cause one or more of the major credit card companies to disallow our continued use of their payment products. In addition, if these systems fail to work properly and, as a result, we do not charge our customers' credit cards on a timely basis or at all, our business, revenue, results of operations and financial condition could be harmed.

The payment methods that we offer also subject us to potential fraud and theft by criminals, who are becoming increasingly more sophisticated, seeking to obtain unauthorized access to or exploit weaknesses that may exist in the payment systems. If we fail to comply with applicable rules or requirements for the payment methods we accept, or if payment-related data are compromised due to a breach of data, we may be liable for significant costs incurred by payment card issuing banks and other third parties or subject to fines and higher transaction fees, or our ability to accept or facilitate certain types of payments may be impaired. In addition, our customers could lose confidence in certain payment types, which may result in a shift to other payment types or potential changes to our payment systems that may result in higher costs. If we fail to adequately control fraudulent credit card transactions, we may face civil liability, diminished public perception of our security measures, and significantly higher credit card-related costs, each of which could harm our business, results of operations and financial condition.

We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it more difficult for us to comply. We are required to comply with payment card industry security standards. Failing to comply with those standards may violate payment card association operating rules, federal and state laws and regulations, and the terms of our contracts with payment processors. Any failure to comply fully also may subject us to fines, penalties, damages and civil liability, and may result in the loss of our ability to accept credit and debit card payments. Further, there is no guarantee that such compliance will prevent illegal or improper use of our payment systems or the theft, loss, or misuse of data pertaining to credit and debit cards, card holders and transactions.

If we are unable to maintain our chargeback rate or refund rates at acceptable levels, our processing vendors may increase our transaction fees or terminate their relationships with us. Any increases in our credit and debit card fees could harm our results of operations, particularly if we elect not to raise our rates for our service to offset the increase. The termination of our ability to process payments on any major credit or debit card would significantly impair our ability to operate our business.

Risks Related to Our Intellectual Property and Technology

If Our Security Measures or Technology Systems Are Compromised, We May Be Subject to Legal Claims and Suffer Significant Losses, and Consumers May Curtail Use of Our Products and Services and Advertisers May Reduce Their Advertising on Our Mobile Applications and Websites.

Our products and services involve the transmission, processing, and/or storage of users' information, some of which may be private or include personally identifiable information such as social security numbers and credit card information. For example, our dotloop real estate transaction management software stores sensitive personal and financial information, and our Mortech mortgage product and pricing software for mortgage professionals processes social security numbers. Security breaches and administrative or technical failures could expose us to a risk of data loss or exposure, including both consumer and customer data as well as intellectual property and other confidential business information, which could result in potential significant liability and litigation. Like all mobile application and website providers, our mobile applications and websites are vulnerable to computer viruses, break-ins, phishing attacks, or other attacks, any of which could lead to loss of critical data or the

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unauthorized disclosure or use of personal or other confidential information. Further, outside parties may attempt to fraudulently induce employees, users or advertisers to disclose sensitive information in order to gain access to our information or our users' or advertisers' information, and our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. If we experience compromises to our security that result in the loss or unauthorized disclosure of confidential information, our users and advertisers may lose trust in us, users may decrease the use of our mobile applications or websites or stop using our mobile applications or websites in their entirety, advertisers may decrease or stop advertising on our mobile applications or websites, and we may be subject to legal claims, government investigation and additional state and federal legal requirements.

We engage a variety of vendors to process and store certain user information, some of which may be private or include personally identifiable information. We also depend on vendors to host many of the systems and infrastructure used to provide our products and services. If our data storage vendors fail to maintain adequate information security systems and our systems or our users' information is compromised, our business, results of operations and financial condition could be harmed. A security breach at our vendor could be perceived by consumers or our customers as a breach of our systems and could result in damage to our reputation and expose us to other losses.

Further, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently, often are not recognized until launched against a target, and may originate from less regulated and remote areas around the world, we may be unable to proactively address all these techniques or to implement adequate preventative measures. Any or all of these issues could negatively impact our ability to attract new users and increase engagement by existing users, cause existing users to curtail or stop use of our products or services or close their accounts, cause existing advertisers to cancel their contracts, cause us to incur significant costs to notify affected individuals and upgrade our technology, or subject us to third-party lawsuits, regulatory fines or other action or liability, thereby harming our business, results of operations and financial condition.

Any Significant Disruption in Service on Our Mobile Applications or Websites or in Our Network Could Damage Our Reputation and Brands, and Result in a Loss of Users of Our Products and Services and of Advertisers, Which Could Harm Our Business, Results of Operations and Financial Condition.

Our brand, reputation and ability to attract users and advertisers depend on the reliable performance of our network infrastructure and content delivery processes. Our mobile applications and websites are exposed to attempts to overload our servers with denial-of-service attacks or similar disruptions from unauthorized use of our computer systems. We have experienced minor interruptions in these systems in the past, including server failures that temporarily slowed the performance of our mobile applications and websites, and we may experience interruptions in the future. Interruptions in these systems, whether due to system failures, computer viruses, software errors or physical or electronic break-ins, could affect the security or availability of our products and services on our mobile applications and websites and prevent or inhibit the ability of users to access our services. Since our users may rely on our products and services, including our free customer relationship management tools, for important aspects of their businesses, problems with the reliability, availability or security of our systems could damage our users' businesses, harm our reputation, result in a loss of users of our products and services and of advertisers and result in additional costs, any of which could harm our business, results of operations and financial condition. In October 2016, for example, traffic to our websites zillow.com and trulia.com was impacted by a distributed denial of service attack against one of our domain name system providers. This incident did not have a material adverse effect on our business, and there is no indication that our internal controls were compromised. Despite the additional network detection tools and other processes we implemented, and our continual work to install new, and upgrade existing, information technology systems and provide employee awareness training around phishing, malware, and other cyber risks, we cannot ensure that we will not experience similar incidents in the future.

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Our Zillow technical infrastructure, mobile applications and websites are hosted at a third-party facility located in the Seattle area. We manage our Trulia mobile applications and website from a shared data center in Santa Clara, California. Additionally, we utilize third-party web services for cloud computing and storage to assist in service growth and redundancy.

We do not own or control the operation of certain of these facilities. Our systems and operations are vulnerable to damage or interruption from fire, flood, power loss, telecommunications failure, terrorist attacks, acts of war, electronic and physical break-ins, computer viruses, earthquakes and similar events. The occurrence of any of the foregoing events could result in damage to our systems and hardware or could cause them to fail completely, and our insurance may not cover such events or may be insufficient to compensate us for losses that may occur.

A failure of our systems at one site could result in reduced functionality for our users, and a total failure of our systems could cause our mobile applications or websites to be inaccessible. Problems faced by our third-party web-hosting providers with the telecommunications network providers with which they contract or with the systems by which they allocate capacity among their customers, including us, could adversely affect the experience of our users. Our third-party web-hosting providers could decide to close their facilities without adequate notice. Any financial difficulties, such as bankruptcy reorganization, faced by our third-party web-hosting providers or any of the service providers with whom they contract may have negative effects on our business, the nature and extent of which are difficult to predict. If our third-party web-hosting providers are unable to keep up with our growing needs for capacity, our business could be harmed. In addition, if distribution channels for our mobile applications experience disruptions, such disruptions could adversely affect the ability of users and potential users to access or update our mobile applications, which could harm our business.

We do not carry business interruption insurance sufficient to compensate us for the potentially significant losses, including the potential harm to the future growth of our business, which may result from interruptions in our service as a result of system failures. Any errors, defects, disruptions or other performance problems with our services could harm our reputation, business, results of operations and financial condition.

We Rely Upon Amazon Web Services to Support Operation of Certain Aspects of Our Services and Any Disruption of or Interference with our Use of the Amazon Web Services Operation Could Adversely Impact Our Operations and Our Business.

Amazon Web Services (AWS) provides a distributed computing infrastructure platform for business operations, which is commonly referred to as a cloud computing service. Certain of our computer systems utilize data processing, storage capabilities and other services provided by AWS. Currently, we run the vast majority of computing to power our mobile applications, websites, and other technology products and services on AWS, and we store a significant amount of our users' information and our confidential business information on AWS. In light of this, coupled with the fact that we cannot easily switch our AWS operations to another cloud provider, any disruption of or interference with our use of AWS could adversely impact our operations and our business.

We May Be Unable to Adequately Protect Our Intellectual Property, Which Could Harm the Value of Our Brands and Our Business.

We regard our intellectual property as critical to our success, and we rely on trademark, copyright and patent law, trade secret protection and contracts to protect our proprietary rights. If we are not successful in protecting our intellectual property, the value of our brands and our business, results of operations and financial condition could be harmed.

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While we believe that our issued patents and pending patent applications help to protect our business, we cannot ensure that our operations do not, or will not, infringe valid, enforceable patents of third parties or that competitors will not devise new methods of competing with us that are not covered by our patents or patent applications. We cannot ensure that our patent applications will be approved, that any patents issued will adequately protect our intellectual property, that such patents will not be challenged by third parties or found to be invalid or unenforceable, or that our patents will be effective in preventing third parties from utilizing a copycat business model to offer the same products or services. Our Zestimate home valuation, for example, which we consider to be a key competitive advantage with respect to consumer engagement, is currently protected by a patent, the loss of which could benefit comparable services provided by our competitors and result in decreased user traffic and engagement with our mobile applications and websites, thereby harming our results of operations and financial condition.

Effective trademark, service mark, copyright and trade secret protection may not be available in every country in which our products and services may be provided. The laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States and, therefore, in certain jurisdictions, we may be unable to protect intellectual property and our proprietary technology adequately against unauthorized third-party copying or use, which could harm our competitive position. We have licensed in the past, and expect to license in the future, certain of our proprietary rights, such as trademarks or copyrighted material, to third parties. These licensees may take actions that might diminish the value of our proprietary rights or harm our reputation, even if we have agreements prohibiting such activity. Though certain of these third parties are obligated to indemnify us for breaches of our intellectual property rights, they may be unable to meet these obligations. In addition, we rely on intellectual property and technology developed or licensed by third parties, and we may not be able to obtain licenses and technologies from these third parties on reasonable terms or at all. Any of these events could harm our business, results of operations or financial condition.

In addition, we may actively pursue entities that infringe our intellectual property, including through legal action. Taking such action may be costly, and we cannot ensure that such actions will be successful. Any increase in the unauthorized use of our intellectual property could make it more expensive for us to do business and harm our results of operations or financial condition.

Intellectual Property Disputes Are Costly to Defend and Could Harm Our Business, Results of Operations, Financial Condition and Reputation.

From time to time, we face allegations that we have infringed the trademarks, copyrights, patents and other intellectual property rights of third parties. We are currently subject to intellectual property infringement claims. These claims allege, among other things, that aspects of our technology infringe upon the plaintiffs' intellectual property. If we are not successful in defending ourselves against these claims, we may be required to pay damages and may be subject to injunctions, each of which could harm our business, results of operations, financial condition and reputation. As we grow our business and expand our operations, we expect that we will continue to be subject to intellectual property claims and allegations. Patent and other intellectual property disputes or litigation may be protracted and expensive, and the results are difficult to predict and may require us to stop offering certain products, services or features, purchase licenses that may be expensive to procure, or modify our products or services. In addition, patent or other intellectual property disputes or litigation may result in significant settlement costs. Any of these events could harm our business, results of operations, financial condition and reputation.

In addition, we use open source software in our services and will continue to use open source software in the future. From time to time, we may be subject to claims brought against companies that incorporate open source software into their products or services, claiming ownership of, or demanding release of, the source code, the open source software and/or derivative works that were developed using such software, or otherwise seeking to enforce the terms of the

applicable open source license. These claims could also result in litigation, and we may

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be required to purchase a costly license or remove open source software, devote additional research and development resources to changing our products or services, make generally available the source code for our proprietary technology, or waive certain of our intellectual property rights, any of which would have a negative effect on our business and results of operations.

Even if these matters do not result in litigation or are resolved in our favor or without significant cash settlements, the time and resources necessary to resolve them could harm our business, results of operations, financial condition and reputation.

We May Be Unable to Continue to Use the Domain Names That We Use in Our Business, or Prevent Third Parties From Acquiring and Using Domain Names That Infringe on, Are Similar to, or Otherwise Decrease the Value of Our Brand or Our Trademarks or Service Marks.

We have registered domain names for our websites that we use in our business. If we lose the ability to use a domain name, we may incur significant expenses to market our products and services under a new domain name, which could harm our business. In addition, our competitors could attempt to capitalize on our brand recognition by using domain names similar to ours. Domain names similar to ours have been registered in the United States and elsewhere. We may be unable to prevent third parties from acquiring and using domain names that infringe on, are similar to, or otherwise decrease the value of our brand or our trademarks or service marks. Protecting and enforcing our rights in our domain names and determining the rights of others may require litigation, which could result in substantial costs and diversion of management's attention.

Confidentiality Agreements With Employees and Others May Not Adequately Prevent Disclosure of Trade Secrets and Other Proprietary Information.

In order to protect our technologies and strategic business and operations information, we rely in part on confidentiality agreements with our employees, independent contractors, vendors, licensees, and other third parties. These agreements may not effectively prevent disclosure of confidential information, including trade secrets, and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. The loss of trade secret protection could make it easier for third parties to compete with our products by copying functionality. Others may independently discover our trade secrets and proprietary information, and in such cases, we could not assert any trade secret rights against such parties. Further, if our employees, contractors or other third parties with whom we do business use intellectual property owned by others in their work for us, disputes may arise as to the rights in related or resulting know-how and inventions. Any changes in, or unfavorable interpretations of, intellectual property laws may compromise our ability to enforce our trade secret and intellectual property rights. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain protection of our trade secrets or other proprietary information could harm our business, results of operations, reputation and competitive position.

We May Not Be Able to Halt the Operations of Websites That Aggregate or Misappropriate Our Data.

From time to time, third parties have misappropriated our data through website scraping, robots or other means, and aggregated this data on their websites with data from other companies. In addition, copycat websites have misappropriated data on our network and attempted to imitate our brand or the functionality of our websites. When we have become aware of such websites, we have employed technological or legal measures in an attempt to halt their operations. We may not be able, however, to detect all such websites in a timely manner and, even if we could, technological and legal measures may be insufficient to halt their operations. In some cases, particularly in the case of websites operating outside of the United States, our available remedies may not be adequate to protect us against the

impact of the operation of such websites. In addition, if such activity creates confusion among consumers or advertisers, our brands and business could be harmed. Regardless of whether we can successfully enforce our rights against the operators of these websites, any measures that we may take could require us to expend significant financial or other resources, which could harm our business, results of operations or financial condition.

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Risks Related to Regulatory Compliance and Legal Matters

We Are, and May in the Future Become, Subject to a Variety of International, Federal, State, and Local Laws, Many of Which Are Unsettled and Still Developing and Which Could Subject Us to Claims or Otherwise Harm Our Business.

With office locations throughout the United States and Vancouver, British Columbia, we are currently subject to a variety of, and may in the future become subject to additional, international, federal, state, and local laws that are continuously evolving and developing, including laws regarding the real estate, rental and mortgage industries, mobile- and internet-based businesses and other businesses that rely on advertising, as well as privacy and consumer protection laws, including the Telephone Consumer Protection Act, the Telemarketing Sales Rule, the CAN-SPAM Act, the Fair Credit Reporting Act, the Canadian Anti-Spam Law, the Personal Information Protection and Electronic Documents Act, and employment laws, including those governing wage and hour requirements. These laws are complex and can be costly to comply with, require significant management time and effort, and subject us to claims, government enforcement actions, civil and criminal liability or other remedies, including suspension of business operations. These laws may conflict with each other, and if we comply with the laws of one jurisdiction, we may find that we are violating laws of another jurisdiction.

If we are unable to comply with these laws or regulations in a cost-effective manner, we may modify impacted products and services, which could require a substantial investment and loss of revenue, or cease providing the impacted product or service altogether. If we are found to have violated laws or regulations, we may be subject to significant fines, penalties, and other losses.

We assist with the processing of customer credit card transactions, consumer credit report requests, and provide other product offerings, which results in us receiving personally identifiable information. This information is increasingly subject to legislation and regulation in the United States. This legislation and regulation is generally intended to protect the privacy and security of personal information, including credit card information that is collected, processed and transmitted. We could be adversely affected if government regulations require us to significantly change our business practices with respect to this type of information or if the third-parties that we engage with to provide processing and screening services violate applicable laws and regulations.

We are From Time to Time Involved In, or May In the Future be Subject to, Claims, Suits, Government Investigations, and Other Proceedings That May Result In Adverse Outcomes.

We are from time to time involved in, or may in the future be subject to, claims, suits, government investigations, and proceedings arising from our business, including actions with respect to intellectual property claims, privacy, consumer protection, information security, data protection or law enforcement matters, tax matters, labor and employment claims, commercial claims, as well as actions involving content generated by our users, shareholder derivative actions, purported class action lawsuits, and other matters, including those matters described in Part I, Item 3. Such claims, suits, government investigations, and proceedings are inherently uncertain, and their results cannot be predicted with certainty. Regardless of the outcome, any such legal proceedings can have an adverse impact on us because of legal costs, diversion of management and other personnel, and other factors. In addition, it is possible that a resolution of one or more such proceedings could result in reputational harm, liability, penalties, or sanctions, as well as judgments, consent decrees, or orders preventing us from offering certain features, functionalities, products, or services, or requiring a change in our business practices, products or technologies, which could in the future materially and adversely affect our business, operating results and financial condition.

The Requirements of Being a Public Company May Strain Our Resources and Distract Our Management, Which Could Make It Difficult to Manage Our Business.

We are required to comply with various regulatory and reporting requirements, including those required by the SEC. Complying with these reporting and other regulatory requirements can be time-consuming and results in increased costs to us and could harm our business, results of operations and financial condition.

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As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These requirements could strain our systems and resources. The Exchange Act also requires that we file annual, quarterly and current reports with respect to our business and financial condition. The Exchange Act requires that we maintain effective disclosure controls and procedures and internal control over financial reporting. To maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have committed significant resources, hired additional staff and provided additional management oversight. We have implemented additional procedures and processes for the purpose of addressing the standards and requirements applicable to public companies. For example, new revenue recognition guidance was issued by the Financial Accounting Standards Board (FASB), which we adopted on January 1, 2018, requiring additional personnel time and other costs to implement. In addition, we expect to invest additional personnel time and other costs to implement new guidance on leases, which we plan to adopt on January 1, 2019. Sustaining our growth will require us to commit additional management, operational and financial resources to identify new professionals to join us and to maintain appropriate operational and financial systems to adequately support expansion. These activities may divert management's attention from other business concerns and could make it difficult to manage our business, which could harm our business, results of operations, financial condition and cash flows. In addition, if we identify any material weaknesses in our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which would cause the market price of our capital stock to decline.

Risks Related to Our Financial Statements***We Incurred Significant Operating Losses in the Past and We May Not Be Able to Generate Sufficient Revenue to Be Profitable Over the Long Term.***

We have incurred significant net operating losses in the past and, as of December 31, 2017, we had an accumulated deficit of \$592.2 million. Although we have experienced significant growth in revenue, our revenue growth rate may decline in the future as the result of a variety of factors, including the maturation of our business. At the same time, we also expect our costs to increase in future periods as we continue to expend substantial financial resources to develop and expand our business, including on:

product development;

sales and marketing;

technology infrastructure;

strategic opportunities, including commercial relationships and acquisitions; and

general and administrative expenses, including legal and accounting expenses related to being a public company.

These investments may not result in increased revenue or growth in our business. If we fail to continue to grow our revenue and overall business and to manage our expenses, we may incur significant losses in the future and not be

able to maintain profitability.

Servicing Our Debt Requires a Significant Amount of Cash, and We May Not Have Sufficient Cash Flow From Our Business to Pay Our Substantial Debt.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the remaining outstanding \$10.1 million aggregate principal under Trulia's Convertible Senior Notes due in 2020 (the 2020 Notes) and our Convertible Senior Notes due in 2021 (the 2021 Notes), depends on our future performance, which is subject to economic, industry, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will

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depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

We Rely on Assumptions, Estimates, and Business Data to Calculate our Key Performance Indicators and Other Business Metrics, and Real or Perceived Inaccuracies in These Metrics May Harm our Reputation and Negatively Affect our Business.

Certain of our performance metrics are calculated using third party applications or internal company data that have not been independently verified. While these numbers are based on what we believe to be reasonable calculations for the applicable period of measurement, there are inherent challenges in measuring such information. For example, our measurement of unique users and visits may be affected by applications that automatically contact our servers to access our mobile applications and websites with no user action involved, and this activity can cause our system to count the user associated with such a device as a unique user or as a visit on the day such contact occurs.

We regularly review and may adjust our processes for calculating our performance metrics to improve accuracy. Our measure of certain metrics may differ from estimates published by third parties or from similarly-titled metrics of our competitors due to differences in methodology. If real estate professionals, advertisers or investors do not perceive our unique users or visits to be an accurate representation of our user engagement, or if we discover material inaccuracies in our unique users or visits, our reputation may be harmed, and real estate professionals and advertisers may be less willing to allocate their resources to our products and services, which could negatively affect our business and operating results.

We Expect Our Results of Operations to Fluctuate on a Quarterly and Annual Basis.

Our revenue and results of operations could vary significantly from period to period and may fail to match expectations as a result of a variety of factors, some of which are outside our control. The other risk factors discussed in this Risk Factors section may contribute to the variability of our quarterly and annual results. In addition, our results may fluctuate as a result of fluctuations in the quantity of, and the price at which we are able to sell, our remnant advertising, seasonal variances of home sales, which historically peak in the spring and summer seasons, and the size and seasonal variability of our advertisers' marketing budgets. As a result of the potential variations in our revenue and results of operations, period-to-period comparisons may not be meaningful and the results of any one period should not be relied on as an indication of future performance. In addition, our results of operations may not meet the expectations of investors or public market analysts who follow us, which may adversely affect our stock price.

We Could Be Subject to Additional Income Tax Liabilities and Our Ability to Use Our Net Operating Loss Carryforwards and Certain Other Tax Attributes May Be Limited.

We are subject to federal and state income taxes in the United States and in Canada. Tax laws, regulations, and administrative practices in various jurisdictions may be subject to significant change, with or without notice, due to economic, political, and other conditions, and significant judgment is required in evaluating and estimating these taxes. Our effective tax rates could be affected by numerous factors, such as entry into new businesses and geographies, changes to our existing business and operations, acquisitions and investments and how they are financed, changes in our stock price, changes in our deferred tax assets and liabilities and their valuation, and changes in the relevant tax, accounting, and other laws, regulations, administrative practices, principles, and interpretations. For example, On December 22, 2017, the U.S. government enacted comprehensive tax legislation under the Tax Cuts and Jobs Act (the Tax Act). The Tax Act makes broad and complex changes to the U.S. tax code, including but not limited to: (1) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; (2) requiring companies to pay a one-time transition tax on certain untaxed earnings of foreign subsidiaries; (3) generally eliminating U.S. federal

income taxes on dividends from foreign

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subsidiaries; (4) eliminating the corporate alternative minimum tax (AMT) and how AMT credits are utilized; and (5) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017.

The Tax Act significantly changes how the U.S. taxes corporations. The Tax Act requires complex computations to be performed that were not previously required in U.S. tax law, significant judgments to be made in interpretation of the provisions of the Tax Act and significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the IRS, and other standard-setting bodies have not implemented all relevant regulations or issued substantive guidance to-date and could interpret or issue guidance on how provisions of the Tax Act will be applied or otherwise administered that is different from our current interpretation. As we complete our analysis of the Tax Act, collect and prepare necessary data, and interpret any additional guidance, we may make adjustments to provisional amounts that we have recorded that may materially impact our provision for income taxes in the period in which the adjustments are made.

As of December 31, 2017, we had federal net operating loss carryforwards of approximately \$1,014.0 million, state net operating loss carryforwards of approximately \$21.4 million (tax effected), and net tax credit carryforwards of approximately \$35.8 million. Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an ownership change, the corporation's ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes, such as research tax credits, to offset its post-change income or income tax liability may be limited. In general, an ownership change will occur if there is a cumulative change in our ownership by certain 5-percent shareholders that exceeds 50 percentage points over a rolling three-year period. In connection with Zillow's August 2013 public offering of Zillow Class A Common stock, Zillow experienced an ownership change that triggered Section 382 and 383, which may limit our ability to utilize net operating loss and tax credit carryforwards. In connection with Zillow Group's February 2015 acquisition of Trulia, Trulia experienced an ownership change that triggered Section 382 and 383, which may limit Zillow Group's ability to utilize Trulia's net operating loss and tax credit carryforwards. If we experience one or more ownership changes in the future as a result of future transactions in our stock, our ability to utilize net operating loss carryforwards could be limited. Furthermore, our ability to utilize net operating loss carryforwards of any companies that we have acquired or may acquire in the future may be limited. As a result, if we earn net taxable income, our ability to use our pre-change net operating loss carryforwards, other pre-change tax attributes, or net operating loss carryforwards of any acquired companies to offset our federal taxable income or reduce our federal income tax liability may be subject to limitation.

Risks Related to Ownership of Our Common and Capital Stock and Debt Instruments***Our Class A Common Stock and Class C Capital Stock Prices May Be Volatile, and the Value of an Investment in Our Class A Common Stock and Class C Capital Stock May Decline.***

An active, liquid and orderly market for our Class A common stock and Class C capital stock may not be sustained, which could depress the trading price of our Class A common stock and Class C capital stock. The trading price of our Class A common stock and Class C capital stock has at times experienced price volatility and may continue to be volatile. For example, since shares of our Class A common stock began trading in February 2015, the closing price of our Class A common stock has ranged from \$17.06 per share to \$50.69 per share (adjusted for the August 2015 stock split effected in the form of a dividend) through December 31, 2017. Since shares of our Class C capital stock began trading in August 2015, the closing price of our Class C capital stock has ranged from \$16.01 per share to \$51.04 per share through December 31, 2017. The market price of our Class A common stock and Class C capital stock could be subject to wide fluctuations in response to many of the risk factors discussed in this Annual Report on Form 10-K and others beyond our control, including:

actual or anticipated fluctuations in our financial condition and results of operations;

changes in projected operational and financial results;

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addition or loss of significant customers;

actual or anticipated changes in our growth rate relative to that of our competitors;

announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital-raising activities or commitments;

announcements of technological innovations or new offerings by us or our competitors;

additions or departures of key personnel;

changes in laws or regulations applicable to our services;

fluctuations in the valuation of companies perceived by investors to be comparable to us;

issuance of new or updated research or reports by securities analysts;

sales of our Class A common stock and Class C capital stock by us or our shareholders;

issuances of our Class A common stock upon conversion of the 2020 Notes and issuances of our Class C capital stock upon conversion of our 2021 Notes;

stock price and volume fluctuations attributable to inconsistent trading volume levels of our shares; and

general economic and market conditions.

Furthermore, the stock markets in recent years have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of the equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of our Class A common stock and Class C capital stock. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We have in the past been and are currently the target of this type of litigation, and we may continue to be the target of this type of litigation in the future. Past, current, and future securities litigation against us could result in substantial costs and divert management's attention from other business concerns, which could harm our business, results of operations or financial condition.

The Structure of Our Capital Stock as Contained in Our Charter Documents Has the Effect of Concentrating Voting Control With Our Founders, and Limits Your Ability to Influence Corporate Matters.

Since Zillow Group's inception, our capital structure has included authorized Class A common stock and authorized Class B common stock. Our Class A common stock entitles its holder to one vote per share, and our Class B common stock entitles its holder to 10 votes per share. All shares of Class B common stock have been and are held or controlled by our founders, Richard Barton and Lloyd Frink. As of December 31, 2017, Mr. Barton's holdings and Mr. Frink's holdings represented approximately 31.8% and 20.7%, respectively, of the voting power of our outstanding capital stock.

For the foreseeable future, Mr. Barton and Mr. Frink will therefore have significant control over our management and affairs and will be able to control most matters requiring shareholder approval, including the election or removal (with or without cause) of directors and the approval of any significant corporate transaction, such as a merger or other sale of us or our assets. In addition, because our Class C capital stock carries no voting rights (except as required by applicable law or as expressly provided in our amended and restated articles of incorporation), the issuance of Class C capital stock (instead of Class A common stock) could prolong the duration of Mr. Barton's and Mr. Frink's relative ownership of our voting power. This concentrated control could delay, defer or prevent a change of control, merger, consolidation, takeover, or other business combination involving us that you, as a shareholder, may otherwise support. This concentrated control could also discourage a potential investor from acquiring our Class A common stock or Class C capital stock due to the limited voting power of such stock relative to the Class B common stock and might harm the market price of our Class A common stock and Class C capital stock.

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Future Sales of Our Stock in the Public Market Could Cause Our Stock Price to Decline.

Our Class A common stock began trading on The Nasdaq Global Select Market on February 18, 2015, and our Class C capital stock began trading on The Nasdaq Global Select Market on August 17, 2015. We cannot predict the effect, if any, that market sales of shares or the availability of shares for sale will have on the prevailing trading price of our Class A common stock and Class C capital stock from time to time. There is currently no contractual restriction on our ability to issue additional shares, and all of our outstanding shares are generally freely tradable, except for shares held by our affiliates as defined in Rule 144 under the Securities Act, which may be sold in compliance with the volume restrictions of Rule 144. Sales of a substantial number of shares of our Class A common stock and Class C capital stock could cause our stock price to decline. In addition, we may in the future issue shares of Class C capital stock for financings, acquisitions or equity incentives. If we issue shares of Class C capital stock in the future, such issuances would have a dilutive effect on the economic interest of our Class A common stock.

If Securities or Industry Analysts Do Not Publish Research or Publish Inaccurate or Unfavorable Research About Our Business, Our Class A Common Stock and Class C Capital Stock Price and Trading Volume Could Decline.

The trading market for our Class A common stock and Class C capital stock depends in part on the research and reports that securities or industry analysts publish about our company. If few or no securities or industry analysts cover our company, the market price of our publicly-traded stock could be negatively impacted. If securities or industry analysts cover us and if one or more of such analysts downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of the analysts covering us fail to publish reports on us regularly, demand for our stock could decline, which could cause our stock price and trading volume to decline.

If We Issue Additional Equity Securities or Issue Additional Convertible Debt to Raise Capital, It May Have a Dilutive Effect on Shareholders' Investment.

If we raise additional capital through further issuances of equity or convertible debt securities, our existing shareholders could suffer significant dilution in their percentage ownership of us. Moreover, any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our common stock.

The Capped Call Transactions May Affect the Value of Our 2021 Notes and Our Class C Capital Stock.

In connection with the pricing of the 2021 Notes, we entered into capped call transactions with Citigroup Global Markets Inc. and certain other financial institutions (the option counterparties). The capped call transactions are expected generally to reduce the potential dilution upon conversion of the 2021 Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted notes, as the case may be. In addition, the capped call transactions provide for us to elect, subject to certain conditions, for the capped call transactions to remain outstanding (with certain modifications) following our election to redeem the 2021 Notes, notwithstanding any conversions of notes in connection with such redemption.

In addition, the option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivative transactions with respect to our Class C capital stock and/or purchasing or selling our Class C capital stock or other securities of ours in secondary market transactions prior to the maturity of the 2021 Notes (and are likely to do so during any observation period related to a conversion of 2021 Notes or in connection with any repurchase of 2021 Notes by us). This activity could cause or avoid an increase or a decrease in the market price of our Class C capital stock or the 2021 Notes.

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Anti-Takeover Provisions in Our Charter Documents and Under Washington Law Could Make an Acquisition of Us More Difficult, Limit Attempts by Shareholders to Replace or Remove Our Management and Affect the Market Price of Our Stock.

Provisions in our articles of incorporation and bylaws, as amended and restated, may have the effect of delaying or preventing a change of control or changes in our management. Our amended and restated articles of incorporation or amended and restated bylaws include provisions, some of which will become effective only after the date, which we refer to as the threshold date, on which the Class B common stock controlled by our founders represents less than 7% of the aggregate number of shares of our outstanding Class A common stock and Class B common stock, that:

set forth the structure of our capital stock, which concentrates voting control of matters submitted to a vote of our shareholders with the holders of our Class B common stock, which is held or controlled by our founders;

authorize our board of directors to issue, without further action by our shareholders, up to 30,000,000 shares of undesignated preferred stock, subject, prior to the threshold date, to the approval rights of the holders of our Class B common stock;

establish that our board of directors will be divided into three classes, Class I, Class II and Class III, with each class serving three-year staggered terms;

prohibit cumulative voting in the election of directors;

provide that, after the threshold date, our directors may be removed only for cause;

provide that, after the threshold date, vacancies on our board of directors may be filled only by the affirmative vote of a majority of directors then in office or by the sole remaining director;

provide that only our board of directors may change the board's size;

specify that special meetings of our shareholders can be called only by the chair of our board of directors, our board of directors, our chief executive officer, our president or, prior to the threshold date, holders of at least 25% of all the votes entitled to be cast on any issue proposed to be considered at any such special meeting;

establish an advance notice procedure for shareholder proposals to be brought before a meeting of shareholders, including proposed nominations of persons for election to our board of directors;

require the approval of our board of directors or the holders of at least two-thirds of all the votes entitled to be cast by shareholders generally in the election of directors, voting together as a single group, to amend or repeal our bylaws; and

require the approval of not less than two-thirds of all the votes entitled to be cast on a proposed amendment, voting together as a single group, to amend certain provisions of our articles of incorporation.

Prior to the threshold date, our directors can be removed with or without cause by holders of our Class A common stock and Class B common stock, voting together as a single group, and vacancies on the board of directors may be filled by such shareholders, voting together as a single group. Given the structure of our capital stock, our founders, Richard Barton and Lloyd Frink, who hold or control our Class B common stock, will have the ability for the foreseeable future to control these shareholder actions. See the risk factor above titled *The Structure of Our Capital Stock as Contained in Our Charter Documents Has the Effect of Concentrating Voting Control With our Founders, and Limits Your Ability to Influence Corporate Matters.*

The provisions described above, after the threshold date, may frustrate or prevent any attempts by our shareholders to replace or remove our current management by making it more difficult for shareholders to replace members of our board of directors, which board is responsible for appointing our management. In

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addition, because we are incorporated in the State of Washington, we are governed by the provisions of Chapter 23B.19 of the Washington Business Corporation Act, which prohibits certain business combinations between us and certain significant shareholders unless specified conditions are met. These provisions may also have the effect of delaying or preventing a change of control of our company, even if this change of control would benefit our shareholders.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

We have various operating leases for office space, which are summarized as of December 31, 2017 in the table below. We believe that our facilities are adequate for our current needs.

Location	Purpose	Approximate Square Feet	Principal Lease Expiration Dates
Seattle, Washington	Corporate headquarters for Zillow Group	307,237	2024
San Francisco, California	General office space	105,897	2023
Denver, Colorado	General office space	64,908	2021
Irvine, California	General office space	60,074	2022
New York, New York	General office space	53,200	2024
San Francisco, California	Subleased office space	26,664	2018

We lease additional office space in Chicago, Illinois, Cincinnati, Ohio, Lincoln, Nebraska, Atlanta, Georgia and Vancouver, British Columbia. See Note 16 of Part II, Item 8 of this Annual Report on Form 10-K for more information about our lease commitments.

Item 3. Legal Proceedings.

For information regarding legal proceedings in which we are involved, see Note 16 under the subsection titled "Legal Proceedings" in our Notes to Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K.

Item 4. Mine Safety Disclosures.

Not applicable.

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Our Class A common stock has traded on The Nasdaq Global Select Market under the symbol "ZG" since August 17, 2015 and under the symbol "Z" from July 20, 2011 through August 14, 2015. The following table sets forth, for each quarterly period indicated, the high and low sales prices per share for our Class A common stock as quoted on The Nasdaq Global Select Market:

	High	Low
Year Ended December 31, 2017:		
First Quarter	\$ 38.25	\$ 32.63
Second Quarter	50.91	33.37
Third Quarter	49.03	37.96
Fourth Quarter	43.16	38.76

	High	Low
Year Ended December 31, 2016:		
First Quarter	\$ 25.96	\$ 16.45
Second Quarter	36.65	20.87
Third Quarter	39.99	32.55
Fourth Quarter	39.19	31.17

Our Class B common stock is not listed and there is no established public trading market.

Our Class C capital stock has traded on The Nasdaq Global Select Market under the symbol "Z" since August 17, 2015. Prior to that time, there was no public market for our Class C capital stock. The following table sets forth, for each quarterly period indicated, the high and low sales prices per share for our Class C capital stock as quoted on The Nasdaq Global Select Market:

	High	Low
Year Ended December 31, 2017:		
First Quarter	\$ 38.05	\$ 32.56
Second Quarter	51.23	33.30
Third Quarter	49.36	37.68
Fourth Quarter	43.43	38.63

	High	Low
Year Ended December 31, 2016:		
First Quarter	\$ 24.64	\$ 15.36

Second Quarter	36.28	19.63
Third Quarter	39.88	32.65
Fourth Quarter	39.05	31.22

Holders of Record

As of February 8, 2018, there were 102, three, and 145 holders of record of our Class A common stock, our Class B common stock, and our Class C capital stock, respectively.

Dividends

We have never declared or paid a cash dividend on our common or capital stock and we intend to retain all available funds and any future earnings to fund the development and growth of our business. We therefore do not anticipate paying any cash dividends on our common or capital stock in the foreseeable future. Any future

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determinations to pay dividends on our common or capital stock would depend on our results of operations, our financial condition and liquidity requirements, restrictions that may be imposed by applicable law or our contracts, and any other factors that our board of directors may consider relevant.

Recent Sales of Unregistered Securities and Use of Proceeds from Registered Securities

Recent Sales of Unregistered Securities

There were no sales of unregistered securities during the year ended December 31, 2017.

Purchases of Equity Securities by the Issuer

None.

Performance Graph

The following graph compares our cumulative total shareholder return on Zillow Group's common and capital stock with the Nasdaq Composite Index and the RDG Internet Composite Index.

For our Class A common stock, this graph covers the period from December 31, 2012 through December 31, 2017. This graph assumes that the value of the investment in Zillow Group's Class A common stock and each index (including reinvestment of dividends) was \$100 on December 31, 2012.

For our Class C capital stock, this graph covers the period from August 3, 2015, using the closing price for the first day of trading during the when-issued trading period prior to the August 2015 stock split effected in the form of a dividend through December 31, 2017. This graph assumes that the value of the investment in Zillow Group's Class C capital stock (including reinvestment of dividends) was \$100 on August 3, 2015.

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The information contained in the graph is based on historical data and is not intended to forecast possible future performance.

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The selected financial data set forth below should be read in conjunction with the information under Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K and our previously audited financial statements that are not included herein. We have included Trulia, Inc. in Zillow Group's results of operations prospectively after February 17, 2015, the date of acquisition. We have given retroactive effect to prior period share and per share amounts in our consolidated statements of operations for the August 2015 stock split effected in the form of a dividend so that prior periods are comparable to current period presentation. Our historical results are not necessarily indicative of our results to be expected in any future period.

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands, except per share data)				
Statement of Operations Data:					
Revenue	\$ 1,076,794	\$ 846,589	\$ 644,677	\$ 325,893	\$ 197,545
Costs and expenses:					
Cost of revenue (exclusive of amortization)					
(1)(2)	85,203	69,262	60,127	29,461	18,810
Sales and marketing (1)	448,201	382,419	308,125	169,462	108,891
Technology and development (1)	319,985	255,583	184,477	84,669	48,498
General and administrative (1)	210,816	332,007	184,984	65,503	37,919
Impairment and restructuring costs (1)	174,000		35,551		
Acquisition-related costs	463	1,423	16,576	21,493	376
Loss (gain) on divestiture of businesses		(1,251)	4,368		
Total costs and expenses	1,238,668	1,039,443	794,208	370,588	214,494
Loss from operations	(161,874)	(192,854)	(149,531)	(44,695)	(16,949)
Loss on debt extinguishment		(22,757)			
Other income	5,385	2,711	1,501	1,085	385
Interest expense	(27,517)	(7,408)	(5,489)		
Loss before income taxes	(184,006)	(220,308)	(153,519)	(43,610)	(16,564)
Income tax benefit (expense)	89,586	(130)	4,645		4,111
Net loss	\$ (94,420)	\$ (220,438)	\$ (148,874)	\$ (43,610)	\$ (12,453)
Net loss per share basic and diluted	\$ (0.51)	\$ (1.22)	\$ (0.88)	\$ (0.36)	\$ (0.12)
Weighted average shares outstanding basic and diluted	186,453	180,149	169,767	120,027	108,087
(1) Includes share-based compensation as follows:					
Cost of revenue	\$ 3,884	\$ 3,550	\$ 2,384	\$ 1,844	\$ 737
Sales and marketing	22,735	23,320	25,391	7,320	10,969
Technology and development	39,938	31,466	26,849	11,681	4,660

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General and administrative	47,014	48,582	50,590	13,240	7,070
Impairment and restructuring costs			14,859		
Total	\$ 113,571	\$ 106,918	\$ 120,073	\$ 34,085	\$ 23,436
 (2) Amortization of website development costs and intangible assets included in technology and development					
	\$ 94,349	\$ 87,060	\$ 63,189	\$ 29,487	\$ 19,791

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	At December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Balance Sheet Data:					
Cash, cash equivalents and investments	\$ 762,539	\$ 507,515	\$ 520,289	\$ 455,920	\$ 437,726
Working capital	723,138	485,617	493,672	352,141	282,903
Property and equipment, net	112,271	98,288	85,523	41,600	27,408
Total assets	3,230,517	3,149,677	3,135,700	649,730	608,063
Long-term debt	385,416	367,404	230,000		
Deferred tax liabilities and other long-term liabilities	44,561	136,146	132,482		
Total shareholders' equity	2,660,823	2,533,587	2,679,053	588,779	567,796

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The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results may differ materially from those contained in or implied by any forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report on Form 10-K, particularly in Risk Factors .

Overview of our Business

Zillow Group, Inc. operates the leading real estate and home-related information marketplaces on mobile and the web, with a complementary portfolio of brands and products to help consumers find vital information about homes and connect with local professionals. Zillow Group's brands focus on all stages of the home lifecycle: renting, buying, selling and financing. The Zillow Group portfolio of consumer brands includes real estate and rental marketplaces Zillow, Trulia, StreetEasy, HotPads, Naked Apartments, RealEstate.com and OutEast.com. In addition, Zillow Group provides a comprehensive suite of marketing software and technology solutions to help real estate, rental and mortgage professionals maximize business opportunities and connect with millions of consumers. We also own and operate a number of business brands for real estate, rental and mortgage professionals, including Mortech, dotloop, Bridge Interactive and New Home Feed.

Our living database of more than 110 million U.S. homes including homes for sale, homes for rent and homes not currently on the market attracts an active and vibrant community of users. Individuals and businesses that use Zillow's mobile applications and websites have updated information on more than 75 million homes, creating exclusive home profiles not available anywhere else. These profiles include detailed information about homes, including property facts, listing information and purchase and sale data. We provide this information to our users where, when and how they want it, through our industry-leading mobile applications and websites. Using complex, proprietary automated valuation models, we provide current home value estimates, or Zestimates, and current rental price estimates, or Rent Zestimates, on approximately 100 million U.S. homes.

We generate revenue from the sale of advertising services and our suite of marketing software and technology solutions to businesses and professionals primarily associated with the residential real estate, rental and mortgage industries. These professionals include real estate, rental and mortgage professionals and brand advertisers. Our two primary revenue categories are marketplace revenue and display revenue.

Marketplace revenue consists primarily of Premier Agent revenue, other real estate revenue and mortgages revenue. Premier Agent revenue is generated by the sale of advertising under our Premier Agent and Premier Broker programs, which offer a suite of marketing and business technology products and services to help real estate agents and brokers grow and manage their businesses and brands. We offer our flagship Premier Agent advertising product and our Premier Broker advertising product on a cost per impression basis. Impressions are delivered when a sold advertisement appears on pages viewed by users of our mobile applications and websites. Other real estate revenue primarily includes revenue generated by Zillow Group Rentals, through which we offer advertising products in our rentals marketplace and a suite of tools for rental professionals, New Construction, which includes advertising services for home builders, as well as revenue from the sale of various other advertising and business software solutions and services and technology solutions for real estate professionals. Mortgages revenue primarily includes advertising sold to mortgage lenders and other mortgage professionals, as well as revenue generated by Mortech, which provides subscription-based mortgage software solutions, including a product and pricing engine and lead management platform.

Display revenue primarily consists of graphical mobile and web advertising sold on a cost per thousand impressions or cost per click basis to advertisers promoting their brands on our mobile applications and websites and our partner websites. Impressions are delivered when a sold advertisement appears on pages viewed by users of our mobile applications and websites.

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Effective February 17, 2015, Zillow Group acquired Trulia, Inc. (Trulia), and each of Zillow and Trulia became wholly owned subsidiaries of Zillow Group. The total purchase price of Trulia was approximately \$2.0 billion. We have included Trulia in Zillow Group's results of operations prospectively after February 17, 2015, the date of acquisition. Because the Trulia acquisition occurred during the year ended December 31, 2015, the information presented in this report with respect to the year ended December 31, 2015 relates to Zillow on a standalone basis prior to February 17, 2015 and to Zillow Group after February 17, 2015, whereas the information presented in this section with respect to the years ended December 31, 2017 and 2016 relates to Zillow Group. Results of operations, including marketplace revenue, for the year ended December 31, 2015 include Market Leader revenue from February 17, 2015 through September 30, 2015, the date we divested the Market Leader business, whereas the information presented in this report with respect to the years ended December 31, 2017 and 2016 does not include Market Leader revenue. For additional information regarding the transaction with Trulia, see Note 7 to our consolidated financial statements.

Overview of Significant Milestones and Results

The following is a summary of certain of our significant milestones for the year ended December 31, 2017:

In January, we completed the acquisition of Hamptons Real Estate Online (HREO), a Hamptons-focused real estate portal that provides buyers and renters with a specialized search experience and access to the area's most comprehensive for-sale, for-rent and vacant land listings. For additional information about the acquisition of HREO, see Note 7 to our consolidated financial statements.

In March, we launched Premier Agent on StreetEasy, New York City's leading real estate marketplace. By integrating StreetEasy with Zillow and Trulia, real estate professionals can now reach the largest audience of New York City home shoppers through one platform. In June, we implemented paid inclusion advertising for rental listings featured on StreetEasy, which significantly improved the quality of rental listings.

In March, we launched a new Dotloop application program interface platform for developers. The update makes it easier for developers to more seamlessly create new integrations for external real estate technology and transaction services with Dotloop's platform.

In April, we launched a new national advertising campaign, Finding Home, with several national TV spots featuring different stories that illustrate the diversity of home buyers today and their unique and varied challenges.

In May, we launched RealEstate.com, a new consumer real estate brand tailored to first-time home buyers. On RealEstate.com, buyers can search for homes in a completely new way by the monthly payment and down payment they can afford.

In May, we announced our testing of the Zillow Instant Offers marketplace, a way for homeowners to sell their homes quickly by providing them with offers from investors and a comparative market analysis from a local real estate agent, as an estimate for what the home might fetch on the open market. In addition to

investors being required to use an agent, should a homeowner select an investor's offer, Zillow will also offer to connect them with a local agent to represent them throughout the transaction.

In May, we launched Zillow Prize, a machine learning competition to improve Zestimate accuracy, with a grand prize of up to \$1 million to the person or team who submits the most improved Zestimate algorithm model.

In June, we launched Builder Inform, a cloud-based data dashboard that provides robust anonymized consumer insight data from Zillow Group to residential builders to help them make decisions about future projects. Builder Inform allows builders to view and compare currently listed homes by type and location to help them understand what they should build based on consumer demand in a given zip code.

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In June, we purchased an equity interest in a privately held corporation for approximately \$10.0 million. For additional information regarding the equity interest, see Note 7 to our consolidated financial statements.

In September, we completed the acquisition of New Home Feed, a streamlined listing management technology that allows builders to input, manage and syndicate their listings across the web. For additional information about the acquisition of New Home Feed, see Note 7 to our consolidated financial statements.

In October, we announced new products to help Premier Agents deepen their connections with clients and build their own personal brands through new technologies in the Premier Agent App, including My Agent. Zillow Group's evolving tech features will streamline agent-client communication and allow agents to appear as a client's only buyer's agent for listings they view on Zillow or Trulia.

In October, we announced the beta launch of Rental Inform, a cloud-based data dashboard of Zillow Group's exclusive real-time, robust rental market and aggregated, anonymized consumer insight data, which helps property management companies make more informed decisions about operations, marketing and investments.

In October, we announced plans to bring 3D Homes imaging technology to for-sale and for-rent listings. With the launch of the Zillow Group Home Capture App, homeowners and real estate professionals can capture 3D tours of their homes from their iPhones® and post to listings on Zillow and Trulia at no cost, providing home searchers with a new and more immersive way to envision themselves in a home. We plan to roll the feature out nationwide in the latter half of 2018.

The year ended December 31, 2017 represents the first full year in which we implemented our new auction-based pricing method for our Premier Agent product by which we determine the cost per impression delivered in each zip code based upon the total amount spent by Premier Agents to purchase impressions in the zip code during the month.

We have experienced significant revenue growth over the past three years. In 2015, 2016 and 2017, we focused on growing our marketplace revenue, which accounted for the majority of our revenue growth over that period. The increase in marketplace revenue resulted primarily from growth in our Premier Agent program. Our Premier Agent program represents the primary source of our revenue, and we believe it is more predictable than our other revenue sources.

For the years ended December 31, 2017, 2016, and 2015, we generated revenue of \$1,076.8 million, \$846.6 million and \$644.7 million, respectively, representing year-over-year growth of 27%, 31% and 98%, respectively. We believe achieving these levels of revenue growth was primarily the result of significant growth in traffic to our owned and operated mobile applications and websites indicated by the average number of monthly unique users for the three months ended December 31, 2017, 2016 and 2015 of 151.6 million, 140.1 million and 123.7 million, respectively, representing year-over-year growth of 8%, 13% and 61%, respectively. This increase in unique users increases the number of impressions and clicks we can monetize in our marketplace and display revenue categories. In addition, we experienced a significant increase in our marketplace revenue, due primarily to growth in our Premier Agent program, which was positively impacted by an increase in visits. Visits for the years ended December 31, 2017, 2016 and 2015 were 6,314.4 million, 5,323.2 million and 3,991.5 million, respectively, representing year-over-year growth of 19%,

33% and 61%, respectively. This increase in visits increased the number of impressions we could monetize in our Premier Agent marketplace. Premier Agent revenue per visit for the years ended December 31, 2017, 2016 and 2015 was \$0.121, \$0.114 and \$0.112, respectively, representing year-over-year growth of 6%, 1% and 24%, respectively. We believe Premier Agent revenue was also positively impacted by the full implementation of the new pricing method for our Premier Agent product, which we believe increased the demand for our advertising platform from both existing and new advertisers. During the year ended December 31, 2016, we began meaningful testing and implementation of a new auction-based pricing method for our Premier Agent product, our flagship advertising

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product, by which we determine the cost per impression delivered in each zip code in a dynamic way based on demand for impressions in that zip code. In the fourth quarter of 2016, we implemented this method broadly for all existing and new agent advertisers, including brokerages and other teams. We believe the increase in Premier Agent revenue was also due in part to increased advertising sales to current Premier Agents, including brokerages and other teams.

As of December 31, 2017, we had 3,181 full-time employees compared to 2,776 full-time employees as of December 31, 2016.

Key Metrics

Management has identified unique users and visits as relevant to investors and others' assessment of our financial condition and results of operations.

Unique Users

Measuring unique users is important to us because our marketplace revenue depends in part on our ability to enable real estate, rental and mortgage professionals to connect with our users, and our display revenue depends in part on the number of impressions delivered to our users. Growth in consumer traffic to our mobile applications and websites increases the number of impressions and clicks we can monetize in our marketplace and display revenue categories. In addition, our community of users improves the quality of our living database of homes with their contributions, which in turn attracts more users.

We count a unique user the first time an individual accesses one of our mobile applications using a mobile device during a calendar month and the first time an individual accesses one of our websites using a web browser during a calendar month. If an individual accesses our mobile applications using different mobile devices within a given month, the first instance of access by each such mobile device is counted as a separate unique user. If an individual accesses more than one of our mobile applications within a given month, the first access to each mobile application is counted as a separate unique user. If an individual accesses our websites using different web browsers within a given month, the first access by each such web browser is counted as a separate unique user. If an individual accesses more than one of our websites in a single month, the first access to each website is counted as a separate unique user since unique users are tracked separately for each domain. Zillow, StreetEasy, HotPads, Naked Apartments (as of March 2016) and RealEstate.com (as of June 2017) measure unique users with Google Analytics, and Trulia measures unique users with Adobe Analytics (formerly called Omniture analytical tools).

	Three Months Ended December 31,			2016 to 2017	2015 to 2016
	2017	2016	2015	% Change	% Change
	(in millions)				
Average Monthly Unique Users	151.6	140.1	123.7	8%	13%

Visits

The number of visits is an important metric because it is an indicator of consumers' level of engagement with our mobile applications and websites. We believe highly engaged consumers are more likely to be transaction-ready real estate market participants and therefore more sought-after by our agent and other real estate professional advertisers.

We define a visit as a group of interactions by users with the Zillow, Trulia (as of February 17, 2015), StreetEasy (as of March 2017) and RealEstate.com (as of June 2017) mobile applications and websites, as we monetize our Premier Agent and Premier Broker products on these mobile applications and websites. A single visit can contain multiple page views and actions, and a single user can open multiple visits across domains, web browsers, desktop or mobile devices. Visits can occur on the same day, or over several days, weeks or months.

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Zillow, StreetEasy and RealEstate.com measure visits with Google Analytics, and Trulia measures visits with Adobe Analytics. Visits to Trulia end after thirty minutes of user inactivity. Visits to Zillow, StreetEasy and RealEstate.com end either: (i) after thirty minutes of user inactivity or at midnight; or (ii) through a campaign change. A visit ends through a campaign change if a visitor arrives via one campaign or source (for example, via a search engine or referring link on a third-party website), leaves the mobile application or website, and then returns via another campaign or source.

	Year Ended December 31,			2016 to 2017	2015 to 2016
	2017	2016	2015	% Change	% Change
Visits	6,314.4	5,323.2	3,991.5	19%	33%

Basis of Presentation**Revenue**

We generate revenue from the sale of advertising services and our suite of marketing software and technology solutions to businesses and professionals primarily associated with the residential real estate, mortgage and rental industries. These professionals include real estate, mortgage and rental professionals and brand advertisers. Our two primary revenue categories are marketplace revenue and display revenue.

Marketplace Revenue. Marketplace revenue consists primarily of Premier Agent revenue, other real estate revenue and mortgages revenue. Marketplace revenue for the year ended December 31, 2015 also includes Market Leader revenue from February 17, 2015 through the date of divestiture of September 30, 2015.

Premier Agent revenue is derived from our Premier Agent and Premier Broker programs. Our Premier Agent and Premier Broker programs offer a suite of marketing and business technology products and services to help real estate agents and brokers achieve their advertising needs, while growing and managing their businesses and brands. All Premier Agents and Premier Brokers receive access to a dashboard portal on our mobile application or website that provides individualized program performance analytics, self-service ad buying tools and our free customer relationship management, or CRM, tool that captures detailed information about each contact made with a Premier Agent or Premier Broker through our mobile and web platforms.

We offer our flagship Premier Agent advertising product and our Premier Broker advertising product on a cost per impression basis. Impressions are delivered when a sold advertisement appears on pages viewed by users of our mobile applications and websites. In 2016, we began testing and implementation of a new auction-based pricing method for our Premier Agent product by which we determine the cost per impression delivered in each zip code based upon the total amount spent by Premier Agents to purchase impressions in the zip code during the month. The cost per impression that we charge is dynamic – as demand for impressions in a zip code increases or decreases, the cost per impression in that zip code may be increased or decreased. This new auction-based pricing method complements our self-serve account interface, which we introduced to Premier Agents over the course of 2016. The interface includes account management tools that allow agent advertisers to independently control their budgets, impression buys, and the duration of their advertising commitment. We began testing this auction-based pricing method for our Premier Agent product to better align our revenue opportunities with increasing traffic levels to our mobile and web platforms and leveraging increasing demand by real estate agents for access to home shoppers who use our mobile applications and websites. In the fourth quarter of 2016, we implemented this method broadly for all

existing and new agent advertisers, including brokerages and other teams. With this auction-based pricing method, we recognize revenue related to our dynamic impression-based Premier Agent and Premier Broker products based on the contractual maximum spend on a straight-line basis during the contractual period over which the services are delivered. Our Premier Agent and Premier Broker products include multiple deliverables which are accounted for as a single unit of accounting, as the delivery or performance of the undelivered elements is based on traffic to our mobile applications and websites. In our history of building our real estate and other information marketplaces and product offerings, we have continually evaluated and utilized various pricing and value delivery strategies in order to better align our revenue opportunities with the growth in usage of our mobile and web platforms.

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From 2012 through the end of the third quarter of 2016, we had primarily charged customers for our Premier Agent product based on the number of impressions delivered on our buyer's agent list in zip codes purchased and a contracted maximum cost per impression. With this pricing method, we recognized revenue related to our impression-based Premier Agent product based on the lesser of (i) the actual number of impressions delivered on our buyer's agent list during the period multiplied by the contracted maximum cost per impression, or (ii) the contractual maximum spend on a straight-line basis during the contractual period over which the services are delivered, typically over a period of six months or twelve months and then month-to-month thereafter.

We continue to support some legacy Trulia Premier Agent products, which are primarily sold on a fixed fee subscription basis for periods that generally range from six months to 12 months. Subscription advertising revenue for Trulia's products included in Premier Agent revenue is recognized on a straight-line basis during the contractual period over which the services are delivered.

Other real estate revenue primarily includes revenue generated by Zillow Group Rentals, as well as revenue from the sale of various other marketing and business products and services to real estate professionals, including our new construction marketing solutions. Zillow Group Rentals includes our rentals marketplace and suite of tools for rental professionals. Rentals revenue primarily includes revenue generated by advertising sold to property managers and other rental professionals on a cost per lead, cost per lease and cost per click generated basis whereby we recognize revenue as leads are delivered to rental professionals or as qualified leases are confirmed. Our new construction marketing solutions allow home builders to showcase their available inventory to home shoppers. New construction revenue primarily includes revenue generated by advertising sold to builders on a cost per residential community basis whereby revenue is recognized based on the contractual spend on a straight-line basis during the contractual period over which the services are delivered.

Mortgages revenue primarily includes marketing products sold to mortgage professionals on a cost per lead basis, including our Long Form and Custom Quote services. Mortgages revenue also includes revenue generated by Morteck, which provides subscription-based mortgage software solutions, including a product and pricing engine and lead management platform, for which we recognize revenue on a straight-line basis during the contractual period over which the services are delivered. For our Long Form and Custom Quote cost per lead mortgage marketing products, generally, participating qualified mortgage professionals make a prepayment to gain access to consumers interested in connecting with mortgage professionals. In Zillow Group's Long Form platform, consumers answer a series of questions to find a local lender, and mortgage professionals receive consumer contact information. Consumers who request rates for mortgage loans in Custom Quotes are presented with customized quotes from participating mortgage professionals. We only charge mortgage professionals a fee when users contact mortgage professionals through Long Form or Custom Quotes. Mortgage professionals who exhaust their initial prepayment can then prepay additional funds to continue to participate in the marketplace. We recognize revenue when a user contacts a mortgage professional through Zillow Group's mortgages platform.

Market Leader revenue primarily includes revenue from the sale of a comprehensive premium software-as-a-service based marketing product typically sold to real estate professionals as a bundle of products under a fixed fee subscription. Market Leader became part of Zillow Group through Zillow Group's February 2015 acquisition of Trulia and was divested as of September 30, 2015.

Display Revenue. Display revenue primarily consists of graphical mobile and web advertising sold on a cost per thousand impressions or cost per click basis to advertisers promoting their brands on our mobile applications and websites and our partner websites and mobile applications, primarily in the real estate industry, including real estate brokerages, multi-family rental professionals, mortgage professionals and home services providers. Our advertising customers also include telecommunications, automotive, insurance and consumer products companies. Impressions

are the number of times an advertisement is loaded on a web page and clicks are the number of times users click on an advertisement. Pricing is primarily based on advertisement size and position on our mobile applications and websites or on our partner websites and mobile applications, and fees are generally billed monthly. We recognize display revenue as clicks occur or as impressions are delivered to users interacting

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with our mobile applications or websites. Growth in display revenue depends on continuing growth in traffic to our mobile applications and websites, continuing growth in traffic to our partner websites and mobile applications, migration of advertising spend online from traditional broadcast and print media, and effectiveness of display advertising versus other methods of online advertising.

We will begin reporting rentals revenue as a separate revenue category beginning with quarterly reporting for the three months ending March 31, 2018. In addition, display revenue will be included in our other revenue category and not reported separately. Going forward, other real estate revenue will be redefined as other revenue and will include revenue from new construction, dotloop, display, as well as from the sale of various other advertising and business software solutions.

Costs and Expenses

Cost of Revenue. Our cost of revenue consists of expenses related to operating our mobile applications and websites, including associated headcount expenses, such as salaries, benefits, share-based compensation expense and bonuses, as well as credit card fees, ad serving costs paid to third parties, revenue-sharing costs related to our commercial business relationships, depreciation expense and costs associated with the operation of our data center and mobile applications and websites.

Sales and Marketing. Sales and marketing expenses consist of advertising costs and other sales expenses related to promotional and marketing activities, as well as headcount expenses, including salaries, commissions, benefits, share-based compensation expense and bonuses for sales, sales support, customer support, marketing and public relations employees, and depreciation expense.

Technology and Development. Technology and development expenses consist of headcount expenses, including salaries, benefits, share-based compensation expense and bonuses for salaried employees and contractors engaged in the design, development and testing of our mobile applications and websites, and equipment and maintenance costs. Technology and development expenses also include amortization costs related to capitalized website and development activities, amortization of software, amortization of certain intangibles and other data agreement costs related to the purchase of data used to populate our mobile applications and websites, and amortization of intangible assets recorded in connection with acquisitions, including developed technology and customer relationships, amongst others. Technology and development expenses also include depreciation expense.

General and Administrative. General and administrative expenses consist of headcount expenses, including salaries, benefits, share-based compensation expense and bonuses for executive, finance, accounting, legal, human resources, recruiting, corporate information technology costs and other administrative support. General and administrative expenses also include legal settlement costs, legal, accounting and other third-party professional service fees, rent expense, depreciation expense and bad debt expense.

Impairment and Restructuring Costs. Impairment costs for the year ended December 31, 2017 consists of the \$174.0 million non-cash impairment related to the \$351.0 million indefinite-lived intangible asset that we recorded in connection with our February 2015 acquisition of Trulia for Trulia's trade names and trademarks. For additional information about the impairment, see Note 9 to our consolidated financial statements. Restructuring costs for the year ended December 31, 2015 consist of workforce reduction expenses in connection with a restructuring plan and related contract termination costs related to operating leases as a result of our February 2015 acquisition of Trulia.

Acquisition-related Costs. Acquisition-related costs consist of investment banking, legal, accounting, tax, and regulatory filing fees associated with acquisitions.

Loss (Gain) on Divestiture of Businesses. The gain on divestiture of business recorded for the year ended December 31, 2016 consists of the gain recognized in connection with our August 2016 sale of our Diverse

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Solutions business. The loss on divestiture of business recorded for the year ended December 31, 2015 consists of the loss recognized in connection with our September 2015 sale of the Market Leader business.

Loss on Debt Extinguishment

The loss on debt extinguishment recorded for the year ended December 31, 2016 relates to the partial repurchase of Trulia's Convertible Senior Notes due in 2020 (the 2020 Notes) in December 2016.

Other Income

Other income consists primarily of interest income earned on our cash, cash equivalents and short-term investments.

Interest Expense

Interest expense consists of interest on the 2020 Notes we guaranteed in connection with our February 2015 acquisition of Trulia and interest on the Convertible Senior Notes due in 2021 (the 2021 Notes) we issued in December 2016. Interest is payable on the 2020 Notes at the rate of 2.75% semi-annually on June 15 and December 15 of each year. Interest is payable on the 2021 Notes at the rate of 2.00% semi-annually on June 1 and December 1 of each year.

Income Taxes

We are subject to federal and state income taxes in the United States and in Canada. During the years ended December 31, 2017, 2016 and 2015, we did not have a material amount of current taxable income. We have provided a full valuation allowance against our deferred tax assets as of December 31, 2017 and 2016 because, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50%) that some or all of the deferred tax assets will not be realized. We have accumulated federal tax losses of approximately \$1,014.0 million as of December 31, 2017, which are available to reduce future taxable income. We have accumulated state tax losses of approximately \$21.4 million (tax effected) as of December 31, 2017.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation under the Tax Cuts and Jobs Act (the Tax Act). The Tax Act makes broad and complex changes to the U.S. tax code, including but not limited to: (1) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; (2) requiring companies to pay a one-time transition tax on certain untaxed earnings of foreign subsidiaries; (3) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; (4) eliminating the corporate alternative minimum tax (AMT) and how AMT credits are utilized; and (5) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017. Shortly after enactment, implementation guidance was released by the Securities and Exchange Commission that requires a company to reflect the income tax effects of those aspects of the Tax Act for which the accounting under the accounting rules is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but the company is able to determine a reasonable estimate, it should record a provisional estimate in the financial statements. Further, the implementation guidance also provides for a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete their accounting pursuant to the accounting rules.

We recorded an income tax benefit of \$89.6 million for the year ended December 31, 2017. Approximately \$66.0 million of the income tax benefit relates to a \$174.0 million non-cash impairment we recorded during the year ended December 31, 2017 related to the \$351.0 million indefinite-lived intangible asset that we recorded in connection with our February 2015 acquisition of Trulia for Trulia's trade names and trademarks. For additional

information about the non-cash impairment, see Note 9 to our consolidated financial statements. The remaining \$23.6 million of the income tax benefit primarily relates to our initial analysis of the impact of the rate decrease

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included in the Tax Act for the impact of the reduction in our net deferred tax liability related to our indefinite-lived intangible asset. As of December 31, 2017, we have not completed our accounting for the income tax effects of certain elements of the Tax Act and we have recorded provisional adjustments where we were able to make reasonable estimates of the effects of elements for which our analysis is not yet complete, including as related to the deduction limitations on compensation.

In the absence of the changes in the Tax Act, our tax benefit for the year ended December 31, 2017 would have been approximately \$66.0 million. For the year ending December 31, 2018, we expect an overall statutory tax rate (including federal, state and foreign taxes) of approximately 24%, but in the absence of the Tax Act we would have expected an overall tax rate of approximately 38%.

Income tax expense was not material for the year ended December 31, 2016. We recorded an income tax benefit of \$4.6 million for the year ended December 31, 2015 due to a deferred tax liability generated in connection with Zillow's August 20, 2015 acquisition of DotLoop, Inc. that can be used to realize certain deferred tax assets for which we had previously provided a full allowance.

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The following tables present our results of operations for the periods indicated and as a percentage of total revenue:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands, except per share data)		
Statements of Operations Data:			
Revenue	\$ 1,076,794	\$ 846,589	\$ 644,677
Costs and expenses:			
Cost of revenue (exclusive of amortization) (1)(2)	85,203	69,262	60,127
Sales and marketing (1)	448,201	382,419	308,125
Technology and development (1)	319,985	255,583	184,477
General and administrative (1)	210,816	332,007	184,984
Impairment and restructuring costs (1)	174,000		35,551
Acquisition-related costs	463	1,423	16,576
Loss (gain) on divestiture of businesses		(1,251)	4,368
Total costs and expenses	1,238,668	1,039,443	794,208
Loss from operations	(161,874)	(192,854)	(149,531)
Loss on debt extinguishment		(22,757)	
Other income	5,385	2,711	1,501
Interest expense	(27,517)	(7,408)	(5,489)
Loss before income taxes	(184,006)	(220,308)	(153,519)
Income tax benefit (expense)	89,586	(130)	4,645
Net loss	\$ (94,420)	\$ (220,438)	\$ (148,874)
Net loss per share basic and diluted	\$ (0.51)	\$ (1.22)	\$ (0.88)
Weighted-average shares outstanding basic and diluted	186,453	180,149	169,767
Other Financial Data:			
Adjusted EBITDA (unaudited) (3)	\$ 236,315	\$ 14,826	\$ 87,564
(1) Includes share-based compensation as follows:			
Cost of revenue	\$ 3,884	\$ 3,550	\$ 2,384
Sales and marketing	22,735	23,320	25,391
Technology and development	39,938	31,466	26,849
General and administrative	47,014	48,582	50,590
Impairment and restructuring costs			14,859
Total	\$ 113,571	\$ 106,918	\$ 120,073
(2) Amortization of website development costs and intangible assets included in technology and development	\$ 94,349	\$ 87,060	\$ 63,189

- (3) See Adjusted EBITDA below for more information and for a reconciliation of Adjusted EBITDA to net loss, the most directly comparable financial measure calculated and presented in accordance with U.S. generally accepted accounting principles, or GAAP. Adjusted EBITDA for the year ended December 31, 2016 includes the impact of the settlement of a lawsuit in June 2016 whereby the Company paid \$130.0 million in connection with a release of all claims.

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	Year Ended December 31,		
	2017	2016	2015
Percentage of Revenue:			
Revenue	100%	100%	100%
Costs and expenses:			
Cost of revenue (exclusive of amortization)	8	8	9
Sales and marketing	42	45	48
Technology and development	30	30	29
General and administrative	20	39	29
Impairment and restructuring costs	16	0	6
Acquisition-related costs			3
Loss (gain) on divestiture of businesses	0		1
Total costs and expenses	115	123	123
Loss from operations	(15)	(23)	(23)
Loss on debt extinguishment	0	(3)	0
Other income	1		
Interest expense	(3)	(1)	(1)
Loss before income taxes	(17)	(26)	(24)
Income tax benefit (expense)	8		1
Net loss	(9)%	(26)%	(23)%

Adjusted EBITDA

To provide investors with additional information regarding our financial results, we have disclosed Adjusted EBITDA within this Annual Report on Form 10-K, a non-GAAP financial measure. We have provided a reconciliation below of Adjusted EBITDA to net loss, the most directly comparable GAAP financial measure.

We have included Adjusted EBITDA in this Annual Report on Form 10-K as it 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. In particular, 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 and restructuring costs;

Adjusted EBITDA does not reflect acquisition-related costs;

Adjusted EBITDA does not reflect the loss (gain) on divestiture of businesses;

Adjusted EBITDA does not reflect interest expense or other income;

Adjusted EBITDA does not reflect the loss on debt extinguishment;

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Adjusted EBITDA does not reflect income tax benefit (expense); 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 our other GAAP results.

The following table presents a reconciliation of Adjusted EBITDA to net loss for each of the periods presented:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands, unaudited)		
Reconciliation of Adjusted EBITDA to Net Loss:			
Net loss	\$ (94,420)	\$ (220,438)	\$ (148,874)
Other income	(5,385)	(2,711)	(1,501)
Depreciation and amortization expense	110,155	100,590	75,386
Share-based compensation expense	113,571	106,918	105,214
Impairment and restructuring costs	174,000		35,551
Acquisition-related costs	463	1,423	16,576
Loss (gain) on divestiture of businesses		(1,251)	4,368
Interest expense	27,517	7,408	5,489
Loss on debt extinguishment		22,757	
Income tax (benefit) expense	(89,586)	130	(4,645)
Adjusted EBITDA (1)	\$ 236,315	\$ 14,826	\$ 87,564

(1) Adjusted EBITDA for the year ended December 31, 2016 includes the impact of the settlement of a lawsuit in June 2016 whereby the Company paid \$130.0 million in connection with a release of all claims.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016**Revenue**

	Year Ended December 31,		2016 to 2017 % Change
	2017	2016	
	(in thousands)		
Revenue:			
Marketplace revenue:			
Premier Agent	\$ 761,594	\$ 604,292	26%
Other real estate	164,991	102,635	61%
Mortgages	80,591	71,133	13%

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Total Marketplace revenue	1,007,176	778,060	29%
Display revenue	69,618	68,529	2%
Total revenue	\$ 1,076,794	\$ 846,589	27%

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	Year Ended December 31,	
	2017	2016
Percentage of Total Revenue:		
Marketplace revenue:		
Premier Agent	71%	71%
Other real estate	15	12
Mortgages	7	8
Total Marketplace revenue	94	92
Display revenue	6	8
Total revenue	100%	100%

Overall revenue increased by \$230.2 million, or 27%, for the year ended December 31, 2017 compared to the year ended December 31, 2016. Marketplace revenue increased by 29%, and display revenue increased by 2%. There were approximately 151.6 million average monthly unique users of our mobile applications and websites for the three months ended December 31, 2017 compared to 140.1 million average monthly unique users for the three months ended December 31, 2016, representing year-over-year growth of 8%. This increase in unique users increased the number of impressions and clicks we monetized in our marketplace and display revenue categories. In connection with the hurricanes that occurred during the summer of 2017, we worked closely with our Premier Agents and other advertisers in affected areas to help manage their advertising budgets. We estimate that relief initiatives, which included billing credits and other forms of advertiser assistance, as well as lost sales, impacted Premier Agent revenue by approximately \$2.0 million for the year ended December 31, 2017. We also experienced a temporary decline in traffic to our mobile applications and websites from consumers in impacted areas, which may have impacted the number of unique users and visits for the year ended December 31, 2017.

Marketplace revenue grew to \$1,007.2 million for the year ended December 31, 2017 from \$778.1 million for the year ended December 31, 2016, an increase of \$229.1 million. Marketplace revenue represented 94% of total revenue for the year ended December 31, 2017 compared to 92% of total revenue for the year ended December 31, 2016. The increase in marketplace revenue was primarily attributable to the \$157.3 million, or 26%, increase in Premier Agent revenue. Premier Agent revenue was positively impacted by an increase in visits. Visits increased 19% to 6,314.4 million for the year ended December 31, 2017 from 5,323.2 million for the year ended December 31, 2016. This increase in visits increased the number of impressions we could monetize in our Premier Agent marketplace. Premier Agent revenue per visit increased by 6% to \$0.121 for the year ended December 31, 2017 from \$0.114 for the year ended December 31, 2016. We calculate Premier Agent revenue per visit by dividing the revenue generated by our Premier Agent and Premier Broker programs in the period by the number of visits in the period. We believe Premier Agent revenue was also positively impacted by the full implementation of the new pricing method for our Premier Agent product, which may have increased the demand for our advertising platform. As discussed above, during the year ended December 31, 2016, we began meaningful testing and implementation of a new auction-based pricing method for our Premier Agent product, our flagship advertising product, by which we determine the cost per impression delivered in each zip code in a dynamic way based on demand for impressions in that zip code. We continue to evaluate this pricing method, and in the fourth quarter of 2016, we implemented this method broadly for all existing and new agent advertisers, including brokerages and other teams. We believe the increase in Premier Agent revenue was also due in part to increased advertising sales to current Premier Agents, including brokerages and other teams.

The increase in marketplace revenue was also attributable to growth in other real estate revenue, which increased by \$62.4 million, or 61%, for the year ended December 31, 2017 compared to the year ended December 31, 2016. The

increase in other real estate revenue was primarily a result of a 66% increase in revenue generated by Zillow Group Rentals. Growth in Zillow Group Rentals revenue was primarily attributable to increases in consumer adoption of our rentals information marketplaces, which in turn increased the likelihood of a lead, lease, or click that we monetize, and advertiser adoption of our cost per lead, cost per lease and cost per

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click advertising products, as well as enhancements to our marketing products that improve the ways in which consumers and advertisers connect through the Zillow Group Rentals marketplace. Other real estate revenue was also positively impacted by increased advertising sales to new home builders through our New Construction platform.

The increase in marketplace revenue was also attributable to growth in mortgages revenue, which increased by \$9.5 million, or 13%, for the year ended December 31, 2017 compared to the year ended December 31, 2016. The increase in mortgages revenue was primarily a result of a 54% increase in our average revenue per loan information request for the year ended December 31, 2017 compared to the year ended December 31, 2016. The increase in average revenue per loan information request was primarily a result of our flagship mortgage advertising platform, Long Form, which yields higher revenue than our other mortgage advertising products, and increased consumer adoption of Long Form, which was driven by product enhancements that allow us to monetize our mortgages products more efficiently. There were approximately 22.7 million mortgage loan information requests submitted on Zillow Group platforms by consumers for the year ended December 31, 2017 compared to 30.8 million mortgage loan information requests submitted on Zillow Group platforms by consumers for the year ended December 31, 2016, a decrease of 26%. We believe the decrease in the number of loan information requests submitted by consumers is due to our strategic decision to improve loan information request quality by requiring consumers to provide more information before a loan information request is submitted. We believe our mortgage product feature change creates a better experience for consumers and more valuable loan information requests for our lender advertisers.

Display revenue was \$69.6 million for the year ended December 31, 2017 compared to \$68.5 million for the year ended December 31, 2016, an increase of \$1.1 million. Display revenue represented 6% of total revenue for the year ended December 31, 2017 compared to 8% of total revenue for the year ended December 31, 2016. The increase in display revenue was primarily a result of the increase in unique users, which resulted in a greater number of impressions and clicks we monetized. We continue to deemphasize display advertising in the user experience and instead focus on growth in marketplace revenue.

We will begin reporting rentals revenue as a separate revenue category beginning with quarterly reporting for the three months ending March 31, 2018. In addition, display revenue will be included in our other revenue category and not reported separately. Going forward, other real estate revenue will be redefined as other revenue and will include revenue from new construction, dotloop, display, as well as from the sale of various other advertising and business software solutions.

Cost of Revenue

Cost of revenue was \$85.2 million for the year ended December 31, 2017 compared to \$69.3 million for the year ended December 31, 2016, an increase of \$15.9 million, or 23%. The increase in cost of revenue was primarily attributable to a \$7.9 million increase in revenue share costs, a \$4.8 million increase in data center and connectivity costs, a \$1.0 million increase in headcount-related expenses, including share-based compensation expense, a \$0.8 million increase in credit card and ad serving fees and a \$1.4 million increase in various miscellaneous expenses. We expect our cost of revenue to increase in absolute dollars in future years as we continue to incur more expenses that are associated with growth in revenue.

Sales and Marketing

Sales and marketing expenses were \$448.2 million for the year ended December 31, 2017 compared to \$382.4 million for the year ended December 31, 2016, an increase of \$65.8 million, or 17%. The increase in sales and marketing expenses was primarily attributable to increased marketing and advertising expenses of \$34.2 million, primarily related to advertising spend to attract consumers across online and offline channels, which supports our growth

initiatives.

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In addition to the increases in marketing and advertising, headcount-related expenses increased \$20.5 million, including share-based compensation expense, due primarily to significant growth in the size of our sales team. The increase in sales and marketing expenses was also attributable to a \$6.0 million increase in tradeshow and conferences expense and related travel costs, a \$2.5 million increase in consulting costs to support our advertising initiatives, a \$1.1 million increase in software, hardware and connectivity costs, and a \$1.5 million increase in various miscellaneous expenses. We expect our sales and marketing expenses to increase in absolute dollars in future years as we continue to expand our sales team and invest more resources in extending our audience through marketing and advertising initiatives.

Technology and Development

Technology and development expenses, which include research and development costs, were \$320.0 million for the year ended December 31, 2017 compared to \$255.6 million for the year ended December 31, 2016, an increase of \$64.4 million, or 25%. Approximately \$44.3 million of the increase related to growth in headcount-related expenses, including share-based compensation expense, as we continue to grow our engineering teams to support current and future product initiatives. In addition, there was a \$10.0 million increase in other non-capitalizable data content expense, a \$5.4 million increase in the amortization of purchased data content intangible assets, a \$1.3 million increase in amortization of acquired intangible assets, a \$1.1 million increase in software and hardware costs, and a \$2.3 million increase in various miscellaneous expenses.

Amortization expense included in technology and development for capitalized website development costs and software was \$44.4 million and \$43.8 million, respectively, for the year ended December 31, 2017 and 2016. Amortization expense included in technology and development related to intangible assets recorded in connection with acquisitions was \$40.0 million and \$38.7 million, respectively, for the year ended December 31, 2017 and 2016. Other data content expense was \$35.4 million and \$25.5 million, respectively, for the year ended December 31, 2017 and 2016. Amortization expense included in technology and development for purchased data content intangible assets was \$10.0 million and \$4.6 million, respectively, for the year ended December 31, 2017 and 2016. We expect our technology and development expenses to increase in absolute dollars over time as we continue to build new mobile and website functionality.

General and Administrative

General and administrative expenses were \$210.8 million for the year ended December 31, 2017 compared to \$332.0 million for the year ended December 31, 2016, a decrease of \$121.2 million, or 37%. The decrease in general and administrative expenses was primarily a result of the settlement of a lawsuit with Move, Inc. and certain related entities (collectively, Move) in June 2016 whereby the Company paid \$130.0 million in connection with a release of all claims. In addition, there was a \$31.1 million decrease in professional services fees, primarily as a result of our settlement of litigation with Move, as we incurred \$28.8 million in legal costs related to our litigation with Move for the year ended December 31, 2016. These decreases were partially offset by a \$10.9 million increase in headcount-related expenses, including share-based compensation expense, driven primarily by growth in headcount in shared corporate services to support our engineering and other teams, a \$7.5 million increase in building lease-related expenses including rent, utilities and insurance, a \$6.0 million increase in estimated legal liabilities, a \$4.7 million increase in bad debt expense, a \$3.7 million increase in city and state taxes, a \$2.9 million increase in software and hardware costs, a \$2.0 million increase in the loss on disposal of assets, a \$1.0 million increase in travel expenses, and a \$1.2 million increase in miscellaneous general and administrative expenses. We expect general and administrative expenses to increase over time in absolute dollars as we continue to expand our business.

Impairment Costs

Impairment costs for the year ended December 31, 2017 consist of the \$174.0 million non-cash impairment related to the \$351.0 million indefinite-lived intangible asset that we recorded in connection with our February

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2015 acquisition of Trulia for Trulia's trade names and trademarks. For additional information about the impairment, see Note 9 to our consolidated financial statements. There were no impairment costs for the year ended December 31, 2016.

Acquisition-Related Costs

Acquisition-related costs were \$0.5 million for the year ended December 31, 2017, primarily as a result of our January 2017 acquisition of HREO and our September 2017 acquisition of New Home Feed, including legal and accounting fees. Acquisition-related costs were \$1.4 million for the year ended December 31, 2016 as a result of our February 2016 acquisition of Naked Apartments and our August 2016 acquisition of Bridge Interactive, including legal, accounting and tax fees.

Loss (Gain) on Divestiture of Businesses

There was no loss (gain) on divestiture of business for the year ended December 31, 2017. The gain on divestiture of business of \$1.3 million for the year ended December 31, 2016 related to the August 2016 sale of our Diverse Solutions business.

Loss on Debt Extinguishment

There was no loss on debt extinguishment for the year ended December 31, 2017. The loss on debt extinguishment was \$22.8 million for the year ended December 31, 2016 and related to the partial repurchase of the 2020 Notes in December 2016.

Interest Expense

Interest expense was \$27.5 million for the year ended December 31, 2017, compared to \$7.4 million for the year ended December 31, 2016. For the year ended December 31, 2017, interest expense primarily related to the 2021 Notes that were issued on December 12, 2016. For the year ended December 31, 2016, interest expense primarily related to the 2020 Notes that we guaranteed in connection with the February 2015 acquisition of Trulia. For additional information regarding the 2020 Notes and the 2021 Notes, see Note 11 to our consolidated financial statements.

Income Tax Benefit (Expense)

We recorded an income tax benefit of \$89.6 million for the year ended December 31, 2017. Approximately \$66.0 million of the income tax benefit relates to a \$174.0 million non-cash impairment we recorded during the year ended December 31, 2017 related to the \$351.0 million indefinite-lived intangible asset that we recorded in connection with our February 2015 acquisition of Trulia for Trulia's trade names and trademarks. For additional information about the non-cash impairment, see Note 9 to our consolidated financial statements. The remaining \$23.6 million of the income tax benefit primarily relates to our initial analysis of the impact of the rate decrease included in the Tax Act for the impact of the reduction in our net deferred tax liability related to our indefinite-lived intangible asset. Income tax expense was not material for the year ended December 31, 2016.

Table of Contents**Year Ended December 31, 2016 Compared to Year Ended December 31, 2015****Revenue**

	Year Ended December 31,		2015 to 2016 % Change
	2016 (in thousands)	2015	
Revenue:			
Marketplace revenue:			
Premier Agent	\$ 604,292	\$ 446,921	35%
Other real estate	102,635	35,171	192%
Mortgages	71,133	44,263	61%
Market Leader		29,549	N/A
Total Marketplace revenue	778,060	555,904	40%
Display revenue	68,529	88,773	(23%)
Total revenue	\$ 846,589	\$ 644,677	31%

	Year Ended December 31,	
	2016	2015
Percentage of Total Revenue:		
Marketplace revenue:		
Premier Agent	71%	69%
Other real estate	12	5
Mortgages	8	7
Market Leader	0	5
Total Marketplace revenue	92	86
Display revenue	8	14
Total revenue	100%	100%

Overall revenue increased by \$201.9 million, or 31%, for the year ended December 31, 2016 compared to the year ended December 31, 2015. Marketplace revenue increased by 40%, and display revenue decreased by 23%. There were approximately 140.1 million average monthly unique users of our mobile applications and websites for the three months ended December 31, 2016 compared to 123.7 million average monthly unique users for the three months ended December 31, 2015, representing year-over-year growth of 13%. This increase in unique users increased the number of impressions and clicks we monetized in our marketplace and display revenue categories.

Marketplace revenue grew to \$778.1 million for the year ended December 31, 2016 from \$555.9 million for the year ended December 31, 2015, an increase of \$222.2 million. Marketplace revenue represented 92% of total revenue for the year ended December 31, 2016 compared to 86% of total revenue for the year ended December 31, 2015. The

increase in marketplace revenue was primarily attributable to the \$157.4 million, or 35%, increase in Premier Agent revenue. Premier Agent revenue was positively impacted by an increase in visits. Visits increased 33% to 5,323.2 million for the year ended December 31, 2016 from 3,991.5 million for the year ended December 31, 2015. This increase in visits increased the number of impressions we could monetize in our Premier Agent marketplace. Premier Agent revenue per visit increased by 1% to \$0.114 for the year ended December 31, 2016 from \$0.112 for the year ended December 31, 2015. Beginning on February 17, 2015, the reported visits reflect the effect of Zillow Group's February 17, 2015 acquisition of Trulia.

The increase in marketplace revenue was also attributable to growth in other real estate revenue, which increased by \$67.5 million, or 192%, for the year ended December 31, 2016 compared to the year ended

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December 31, 2015. The increase in other real estate revenue was primarily a result of a 124% increase in revenue generated by Zillow Group Rentals. Growth in Zillow Group Rentals revenue was primarily attributable to increases in consumer adoption of our rentals information marketplaces, which in turn increased the likelihood of a lead or lease that we monetize, and advertiser adoption of our cost per lead and cost per lease advertising products, as well as enhancements to our marketing products that improve the ways in which consumers and advertisers connect through the Zillow Group Rentals marketplace.

The increase in marketplace revenue was also attributable to growth in mortgages revenue, which increased by \$26.9 million, or 61%, for the year ended December 31, 2016 compared to the year ended December 31, 2015. The increase in mortgages revenue was primarily a result of a 153% increase in our average revenue per loan information request for the year ended December 31, 2016 compared to the year ended December 31, 2015. The increase in average revenue per loan information request was primarily a result of our flagship mortgage advertising platform, Long Form, which yields higher revenue than our other mortgage advertising products, and increased consumer adoption of Long Form, which was driven by product enhancements that allow us to monetize our mortgages products more efficiently. There were approximately 30.8 million mortgage loan information requests submitted on Zillow Group platforms by consumers for the year ended December 31, 2016 compared to 46.8 million mortgage loan information requests submitted on Zillow Group platforms by consumers for the year ended December 31, 2015, a decrease of approximately 34%. We believe the decrease in the number of loan information requests submitted by consumers is due to our strategic decision to improve loan information request quality by requiring consumers to provide more information before a loan information request is submitted. We believe our mortgage product feature change creates a better experience for consumers and more valuable loan information requests for our lender advertisers. During the first half of 2015 we changed the pricing model for our mortgage advertising products from cost per click to cost per lead, which also may have contributed to growth in mortgages revenue.

Display revenue was \$68.5 million for the year ended December 31, 2016 compared to \$88.8 million for the year ended December 31, 2015, a decrease of \$20.2 million. Display revenue represented 8% of total revenue for the year ended December 31, 2016 compared to 14% of total revenue for the year ended December 31, 2015. The decrease in display revenue is primarily a result of our strategy to deemphasize display advertising in the user experience and instead focus on growth in marketplace revenue.

Cost of Revenue

Cost of revenue was \$69.3 million for the year ended December 31, 2016 compared to \$60.1 million for the year ended December 31, 2015, an increase of \$9.1 million, or 15%. The increase in cost of revenue was primarily attributable to a \$6.5 million increase in data center and connectivity costs, increased headcount-related expenses of \$3.8 million, including share-based compensation expense, driven by growth in headcount, and a \$3.6 million increase in credit card and ad serving fees, which were partially offset by a \$4.2 million decrease in printing costs and costs to generate leads for customers related to the Market Leader business that we divested on September 30, 2015 and a \$0.7 million decrease in multiple listing services fees.

Sales and Marketing

Sales and marketing expenses were \$382.4 million for the year ended December 31, 2016 compared to \$308.1 million for the year ended December 31, 2015, an increase of \$74.3 million, or 24%. The increase in sales and marketing expenses was primarily attributable to increased headcount-related expenses of \$45.9 million, including share-based compensation expense, due primarily to significant growth in the size of our sales team. In addition to the increase in headcount-related expenses, marketing and advertising expenses increased by \$30.1 million, primarily related to advertising spend to acquire shoppers across online and offline channels, which supports our growth initiatives. These

costs were partially offset by a \$1.7 million decrease in various miscellaneous expenses.

Table of Contents***Technology and Development***

Technology and development expenses, which include research and development costs, were \$255.6 million for the year ended December 31, 2016 compared to \$184.5 million for the year ended December 31, 2015, an increase of \$71.1 million, or 39%. Approximately \$36.9 million of the increase related to growth in headcount-related expenses, including share-based compensation expense, as we continue to grow our engineering headcount to support current and future product initiatives. Approximately \$19.9 million of the increase related to an increase in amortization of website development costs and software. The increase in technology and development expenses was also attributable to a \$9.4 million increase in other non-capitalizable data content expense, a \$5.3 million increase in amortization of acquired intangible assets, and a \$2.5 million increase in loss on disposal of property and equipment, which were partially offset by a \$1.3 million decrease in amortization of purchased content and a \$1.6 million decrease in various miscellaneous expenses.

Amortization expense included in technology and development for capitalized website development costs and software was \$43.8 million and \$23.9 million, respectively, the year ended December 31, 2016 and 2015.

Amortization expense included in technology and development related to intangible assets recorded in connection with acquisitions was \$38.7 million and \$33.4 million, respectively, for the year ended December 31, 2016 and 2015. Other data content expense was \$25.5 million and \$16.2 million, respectively, for the year ended December 31, 2016 and 2015. Amortization expense included in technology and development for purchased data content intangible assets was \$4.6 million and \$5.9 million, respectively, for the year ended December 31, 2016 and 2015.

General and Administrative

General and administrative expenses were \$332.0 million for the year ended December 31, 2016 compared to \$185.0 million for the year ended December 31, 2015, an increase of \$147.0 million, or 79%. The increase in general and administrative expenses was primarily a result of the settlement of a lawsuit with Move, Inc. and certain other parties in June 2016 whereby the Company paid \$130.0 million in connection with a release of all claims.

The increase in general and administrative expenses was also a result of a \$11.6 million increase in headcount-related expenses, including share-based compensation expense, including the impact of growth in headcount as a result of our February 2015 acquisition of Trulia, a \$4.3 million increase in building lease-related expenses including rent, utilities and insurance, and a \$1.1 million increase in various miscellaneous expenses.

Acquisition-Related Costs

Acquisition-related costs were \$1.4 million for the year ended December 31, 2016 as a result of our February 2016 acquisition of Naked Apartments and our August 2016 acquisition of Bridge Interactive, including legal, accounting and tax fees. Acquisition-related costs were \$16.6 million for the year ended December 31, 2015, primarily as a result of our February 2015 acquisition of Trulia, including investment banking, legal, accounting, tax, and regulatory filing fees.

Restructuring Costs

There were no restructuring costs for the year ended December 31, 2016. Restructuring costs for the year ended December 31, 2015 were \$35.6 million. On February 17, 2015, in connection with the February 2015 acquisition of Trulia, Zillow Group undertook a restructuring plan that resulted in a total workforce reduction of nearly 350 employees, primarily to eliminate overlapping positions in the sales and marketing functions related to Trulia's workforce at its Bellevue, Denver, New York and San Francisco locations. The restructuring plan was a result of the

integration of Trulia's business and operations with and into Zillow Group's business. Employees directly affected by the restructuring plan were provided with severance payments, stock vesting acceleration and outplacement assistance. As of December 31, 2015, the restructuring plan was complete.

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Loss (Gain) on Divestiture of Businesses

The gain on divestiture of business was \$1.3 million for the year ended December 31, 2016 and relates to the August 2016 sale of our Diverse Solutions business. The loss on divestiture of business was \$4.4 million for the year ended December 31, 2015 and relates to the September 2015 sale of our Market Leader business.

Loss on Debt Extinguishment

The loss on debt extinguishment was \$22.8 million for the year ended December 31, 2016 and relates to the partial repurchase of the 2020 Notes in December 2016.

Interest Expense

Interest expense was \$7.4 million for the year ended December 31, 2016, compared to \$5.5 million for the year ended December 31, 2015. The interest expense for each year primarily relates to the 2020 Notes that we guaranteed in connection with the February 2015 acquisition of Trulia, which accrue interest at 2.75% annually.

On December 12, 2016, Zillow Group issued the 2021 Notes. The 2021 Notes bear interest at a fixed rate of 2.00% per year, payable semiannually in arrears on June 1 and December 1 of each year, beginning on June 1, 2017. As a result of the issuance of the 2021 Notes, our interest expense increased in future periods related to the contractual coupon interest and amortization of debt discount and debt issuance costs that will be recognized in interest expense.

For additional information regarding the 2020 Notes and the 2021 Notes, see Note 11 to our consolidated financial statements.

Income Taxes

During the years ended December 31, 2016 and 2015, we did not have a material amount of current taxable income. Therefore, no material tax liability or expense has been recorded in the consolidated financial statements for the years ended December 31, 2016 and 2015.

We recorded an income tax benefit of \$4.6 million for the year ended December 31, 2015 due to a deferred tax liability generated in connection with Zillow's August 20, 2015 acquisition of DotLoop, Inc. that can be used to realize certain deferred tax assets for which we had previously provided a full allowance.

Table of Contents**Quarterly Results of Operations**

The following tables set forth our unaudited quarterly statements of operations data for each of the periods presented below. In the opinion of management, the data has been prepared on the same basis as the audited consolidated financial statements included in this Annual Report on Form 10-K, and reflects all necessary adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the data. The results of historical periods are not necessarily indicative of the results of operations of any future period. You should read the data together with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K.

	Three Months Ended							
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
	(in thousands, except per share data, unaudited)							
Statement of Operations Data:								
Revenue	\$ 282,330	\$ 281,839	\$ 266,850	\$ 245,775	\$ 227,612	\$ 224,592	\$ 208,403	\$ 185,982
Costs and expenses:								
Cost of revenue (exclusive of amortization) (1)(2)	22,559	22,152	20,260	20,232	18,706	17,608	16,745	16,203
Sales and marketing (1)	103,935	107,108	131,218	105,940	90,509	93,180	99,629	99,101
Technology and development (1)	85,187	83,389	78,541	72,868	67,320	64,496	63,396	60,371
General and administrative (1)	57,778	54,226	53,346	45,466	47,832	42,625	183,759	57,791
Impairment costs	174,000							
Acquisition-related costs	97	218	43	105	533	93	204	593
Gain on divestiture of business						(1,251)		
Total costs and expenses	443,556	267,093	283,408	244,611	224,900	216,751	363,733	234,059
Income (loss) from operations	(161,226)	14,746	(16,558)	1,164	2,712	7,841	(155,330)	(48,077)
Loss on debt extinguishment					(22,757)			
Other income	1,415	1,407	1,610	953	716	561	753	681
Interest expense	(6,991)	(6,906)	(6,897)	(6,723)	(2,668)	(1,595)	(1,572)	(1,573)
	(166,802)	9,247	(21,845)	(4,606)	(21,997)	6,807	(156,149)	(48,969)

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Income (loss) before income taxes									
Income tax benefit (expense)	89,627	(41)		(1,494)				1,364	
Net income (loss)	\$ (77,175)	\$ 9,206	\$ (21,845)	\$ (4,606)	\$ (23,491)	\$ 6,807	\$ (156,149)	\$ (47,605)	
Net income (loss) per share basic and diluted	\$ (0.41)	\$ 0.05	\$ (0.12)	\$ (0.03)	\$ (0.13)	\$ 0.04	\$ (0.87)	\$ (0.27)	
Weighted-average shares outstanding basic	189,439	187,692	185,439	183,158	181,852	180,583	179,451	178,686	
Weighted-average shares outstanding diluted	189,439	196,425	185,439	183,158	181,852	189,661	179,451	178,686	
Other Financial Data:									
Adjusted EBITDA (3)	\$ 70,859	\$ 70,957	\$ 39,700	\$ 54,799	\$ 54,749	\$ 59,463	\$ (101,260)	\$ 1,874	

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	Three Months Ended							
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
(in thousands)								
(1) Includes share-based compensation as follows:								
Cost of revenue	\$ 942	\$ 1,014	\$ 1,025	\$ 903	\$ 888	\$ 894	\$ 982	\$ 786
Sales and marketing	5,041	5,914	6,250	5,530	5,754	5,968	6,395	5,203
Technology and development	10,609	10,438	10,400	8,491	8,306	8,035	8,366	6,759
General and administrative	12,817	11,208	11,518	11,471	10,818	12,388	12,573	12,803
Total	\$ 29,409	\$ 28,574	\$ 29,193	\$ 26,395	\$ 25,766	\$ 27,285	\$ 28,316	\$ 25,551
(2) Amortization of website development costs and intangible assets included in technology and development								
	\$ 24,392	\$ 23,537	\$ 23,159	\$ 23,261	\$ 22,130	\$ 22,006	\$ 22,252	\$ 20,672

(3) See Adjusted EBITDA below for more information and for a reconciliation of Adjusted EBITDA to net income (loss), the most directly comparable financial measure calculated and presented in accordance with GAAP.

Adjusted EBITDA for the three months ended June 30, 2016 includes the impact of the settlement of a lawsuit in June 2016 whereby the Company paid \$130.0 million in connection with a release of all claims.

The following tables present our revenue by type and as a percentage of total revenue for the periods presented:

	Three Months Ended							
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
(in thousands)								
Revenue:								
Marketplace revenue:								
Premier Agent	\$ 199,514	\$ 197,054	\$ 189,725	\$ 175,301	\$ 164,335	\$ 158,322	\$ 147,106	\$ 134,529
Other real estate	47,564	44,778	37,894	34,755	29,788	28,799	26,070	17,978
Mortgages	18,516	20,869	20,936	20,270	16,512	19,775	18,392	16,454
Total Marketplace revenue	265,594	262,701	248,555	230,326	210,635	206,896	191,568	168,961
Display revenue	16,736	19,138	18,295	15,449	16,977	17,696	16,835	17,021
Total revenue	\$ 282,330	\$ 281,839	\$ 266,850	\$ 245,775	\$ 227,612	\$ 224,592	\$ 208,403	\$ 185,982

	Three Months Ended							
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Percentage of Revenue:								
Marketplace revenue:								
Premier Agent	71%	70%	71%	71%	72%	70%	71%	72%
Other real estate	17	16	14	14	13	13	13	10
Mortgages	7	7	8	8	7	9	9	9
Total Marketplace revenue								
	94	93	93	94	93	92	92	91
Display revenue	6	7	7	6	7	8	8	9
Total revenue								
	100%	100%	100%	100%	100%	100%	100%	100%

Total revenue increased sequentially in all quarters presented. In general, the strong increase in consumer adoption of our mobile applications and websites in the years ended December 31, 2017 and December 31, 2016

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was reflected in the significant growth in unique users, which resulted in increased impression inventory, leads, and graphical display impressions we could monetize through our advertising products.

Premier Agent revenue also increased sequentially in all quarters presented. As discussed above, during the year ended December 31, 2016, we began meaningful testing and implementation of a new auction-based pricing method for our Premier Agent product, our flagship advertising product, by which we determine the cost per impression delivered in each zip code in a dynamic way based on demand for impressions in that zip code. We believe Premier Agent revenue was also positively impacted by the full implementation of the new pricing method for our Premier Agent product, which may have increased the demand for our advertising platform. We believe the increase in Premier Agent revenue was also due in part to increased advertising sales to current Premier Agents, including brokerages and other teams.

The year-over-year quarterly increases in revenue were also attributable to year-over-year growth in other real estate revenue, which was primarily a result increases in revenue generated by Zillow Group Rentals. Growth in Zillow Group Rentals revenue was primarily attributable to increases in consumer adoption of our rentals information marketplaces, which in turn increased the likelihood of a lead, lease, or click that we monetize, and advertiser adoption of our cost per lead, cost per lease and cost per click advertising products, as well as enhancements to our marketing products that improve the ways in which consumers and advertisers connect through the Zillow Group Rentals marketplace. Other real estate revenue was also positively impacted by increased advertising sales to new home builders through our New Construction platform.

The composition of revenue continues to shift from display revenue to marketplace revenue, as we continue to dedicate more of our advertising placements on search, map and home detail pages to our information marketplace products, which provide consumers with services that are directly relevant to home-related searches.

Portions of our business may be affected by seasonal fluctuations in the residential real estate market, advertising spending, and other factors. We believe our rapid growth may be masking the underlying seasonality of our business. As our revenue growth rate slows, we expect seasonal variances may become more pronounced, causing our operating results to fluctuate. For example, in the years ended December 31, 2017 and 2016, costs and expenses peaked in the three months ended June 30th, primarily attributable to increases in sales and marketing expenses which were, in turn, primarily attributable to increased investment in marketing and advertising initiatives to attract consumers across online and offline channels during peak seasons for home sales activity. In addition, the average number of unique users and visits have historically peaked during the three months ended June 30th or September 30th, also consistent with peak residential real estate activity in the spring and summer months. Because the number of unique users and visits may impact impression inventory, leads to real estate professionals, and graphical display inventory which we monetize, this trend in the average number of unique users and visits may result in seasonality of revenue.

Table of Contents**Adjusted EBITDA**

The following table sets forth a reconciliation of Adjusted EBITDA to net income (loss) for each of the periods presented below. See Adjusted EBITDA under Results of Operations above in this Item 7 for additional information about why we have included Adjusted EBITDA in this Annual Report on Form 10-K and how we use Adjusted EBITDA.

	Three Months Ended							
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
	(in thousands)							
Reconciliation of Adjusted EBITDA to Net Income (Loss):								
Net income (loss)	\$ (77,175)	\$ 9,206	\$ (21,845)	\$ (4,606)	\$ (23,491)	\$ 6,807	\$ (156,149)	\$ (47,605)
Other income	(1,415)	(1,407)	(1,610)	(953)	(716)	(561)	(753)	(681)
Depreciation and amortization expense	28,579	27,419	27,022	27,135	25,738	25,495	25,550	23,807
Share-based compensation expense	29,409	28,574	29,193	26,395	25,766	27,285	28,316	25,551
Impairment costs	174,000							
Acquisition-related costs	97	218	43	105	533	93	204	593
Gain on divestiture of business						(1,251)		
Interest expense	6,991	6,906	6,897	6,723	2,668	1,595	1,572	1,573
Loss on debt extinguishment					22,757			
Income tax (benefit) expense	(89,627)	41			1,494			(1,364)
Adjusted EBITDA (1)	\$ 70,859	\$ 70,957	\$ 39,700	\$ 54,799	\$ 54,749	\$ 59,463	\$ (101,260)	\$ 1,874

(1) Adjusted EBITDA for the three months ended June 30, 2016 includes the impact of the settlement of a lawsuit in June 2016 whereby the Company paid \$130.0 million in connection with a release of all claims.

Unique Users

The following tables set forth our unique users for each of the periods presented below. Refer to Unique Users above in this Item 7 for information about how we measure unique users. The average number of unique users has historically peaked during the three months ended June 30 or September 30, consistent with seasonal variances of

home sales which generally peak in the spring and summer months. Because the number of unique users may impact impression inventory, leads to real estate professionals, and graphical display inventory which we monetize, this trend in the average number of unique users may result in seasonality of revenue.

	Average for the Three Months Ended							
	December 31,	September 30,	June 30,	March 31,	December 31,	September 30,	June 30,	March 31,
	2017	2017	2017	2017	2016	2016	2016	2016
	(in millions)							
Unique Users	151.6	175.2	178.1	166.6	140.1	164.5	168.7	156.2

The following tables set forth our visits for each of the periods presented below. Refer to *Visits* above in this Item 7 for information about how we measure visits. Consistent with the trend in our unique users discussed

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above, the number of visits has historically peaked during the three months ended June 30 or September 30, consistent with seasonal variances of home sales which generally peak in the spring and summer months. Because the number of visits may increase the number of impressions we could monetize in our Premier Agent marketplace, this trend in the number of visits may result in seasonality of revenue.

	Three Months Ended							
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Visits	1,435.6	1,667.1	1,678.7	1,533.0	1,189.7	1,403.8	1,431.4	1,298.3

Liquidity and Capital Resources

As of December 31, 2017 and December 31, 2016, we had cash, cash equivalents and investments of \$762.5 million and \$507.5 million, respectively. Cash and cash equivalents balances consist of operating cash on deposit with financial institutions, money market funds, corporate notes and bonds, commercial paper, U.S. government agency securities and certificates of deposit with original maturities of three months or less. Investments as of December 31, 2017 and December 31, 2016 consist of fixed income securities, which include U.S. government agency securities, corporate notes and bonds, commercial paper, municipal securities, certificates of deposit and foreign government securities. Amounts on deposit with third-party financial institutions exceed the Federal Deposit Insurance Corporation and the Securities Investor Protection Corporation insurance limits, as applicable. We believe that cash from operations and cash, cash equivalents and investment balances will be sufficient to meet our ongoing operating activities, working capital, capital expenditures and other capital requirements for at least the next 12 months.

On February 17, 2015, we acquired Trulia in a stock-for-stock transaction. The total purchase price of Trulia was approximately \$2.0 billion. We have included Trulia's results of operations prospectively after February 17, 2015, the date of acquisition. Our February 2015 acquisition of Trulia had a significant impact on our liquidity, financial position and results of operations.

Further, as a result of the acquisition, Zillow Group entered into a supplemental indenture in respect of the 2020 Notes in the aggregate principal amount of \$230.0 million, which supplemental indenture provides, among other things, that, at the effective time of the Trulia acquisition, (i) each outstanding 2020 Note is no longer convertible into shares of Trulia common stock and is convertible solely into shares of Zillow Group Class A common stock, pursuant to, and in accordance with, the terms of the indenture governing the 2020 Notes, and (ii) Zillow Group guaranteed all of the obligations of Trulia under the 2020 Notes and related indenture. The aggregate principal amount of the 2020 Notes is due on December 15, 2020 if not earlier converted or redeemed. Interest is payable on the 2020 Notes at the rate of 2.75% semi-annually on June 15 and December 15 of each year. In December 2016, the Company used approximately \$370.2 million of the net proceeds from the issuance of the 2021 Notes discussed below to repurchase \$219.9 million aggregate principal of the 2020 Notes in privately negotiated transactions.

Holders of the 2020 Notes may convert all or any portion of their notes, in multiples of \$1,000 principal amount, at their option at any time prior to the close of business on the business day immediately preceding the maturity date. In connection with the supplemental indenture in respect of the 2020 Notes, the conversion ratio immediately prior to the effective time of the Trulia Merger of 27.8303 shares of Trulia common stock per \$1,000 principal amount of notes was adjusted to 12.3567 shares of our Class A common stock per \$1,000 principal amount of notes based on the exchange ratio of 0.444 per the Merger Agreement. This was equivalent to an initial conversion price of approximately \$80.93 per share of our Class A common stock. In connection with the August 2015 distribution of

shares of our Class C capital stock as a dividend to our Class A and Class B common shareholders, the conversion ratio has been further adjusted to 41.4550 shares of Class A common stock per \$1,000 principal amount of notes, which is equivalent to a conversion price of approximately \$24.12 per

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share of our Class A common stock. The conversion ratio will be adjusted for certain dilutive events and will be increased in the case of corporate events that constitute a Make-Whole Fundamental Change (as defined in the indenture governing the notes). The conversion option of the 2020 Notes has no cash settlement provisions. The conversion option does not meet the criteria for separate accounting as a derivative as it is indexed to our own stock.

The 2020 Notes are redeemable, at our option, in whole or in part on or after December 20, 2018, if the last reported sale price per share of our Class A common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period.

For additional information regarding the 2020 Notes, see Note 11 to our consolidated financial statements.

In December 2016, Zillow Group issued \$460.0 million aggregate principal amount of 2021 Notes, which amount includes the exercise in full of the \$60.0 million over-allotment option, to Citigroup Global Markets Inc. as the initial purchaser of the 2021 Notes in a private offering to the initial purchaser in reliance on the exemption from the registration requirements provided by Section 4(a)(2) of the Securities Act of 1933, as amended (the Securities Act) for resale to qualified institutional buyers as defined in, and pursuant to, Rule 144A under the Securities Act. The 2021 Notes bear interest at a fixed rate of 2.00% per year, payable semiannually in arrears on June 1 and December 1 of each year, beginning on June 1, 2017. The 2021 Notes are convertible into cash, shares of our Class C capital stock or a combination thereof, at the Company's election. The 2021 Notes will mature on December 1, 2021, unless earlier repurchased, redeemed, or converted in accordance with their terms. The Company incurred transaction costs of approximately \$12.2 million related to the issuance of the 2021 Notes, including approximately \$11.5 million in fees to the initial purchaser, which amount was paid out of the gross proceeds from the note offering.

The net proceeds from the issuance of the 2021 Notes were approximately \$447.8 million, after deducting fees and expenses. The Company used approximately \$370.2 million of the net proceeds from the issuance of the 2021 Notes to repurchase a portion of the outstanding 2020 Notes in privately negotiated transactions. In addition, the Company used approximately \$36.6 million of the net proceeds from the issuance of the 2021 Notes to pay the cost of Capped Call Confirmations as discussed in Note 11 to our consolidated financial statements. The Company used the remainder of the net proceeds for general corporate purposes.

Prior to the close of business on the business day immediately preceding September 1, 2021, the 2021 Notes are convertible at the option of the holders of the 2021 Notes only under certain conditions, none of which conditions have been satisfied as of December 31, 2017. On or after September 1, 2021, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders of the 2021 Notes may convert their 2021 Notes at their option at the conversion rate then in effect, irrespective of these conditions. The Company will settle conversions of the 2021 Notes by paying or delivering, as the case may be, cash, shares of Class C capital stock, or a combination of cash and shares of Class C capital stock, at its election. The conversion rate will initially be 19.0985 shares of Class C capital stock per \$1,000 principal amount of 2021 Notes (equivalent to an initial conversion price of approximately \$52.36 per share of Class C capital stock). The conversion rate is subject to customary adjustments upon the occurrence of certain events. The Company may redeem for cash all or part of the 2021 Notes, at its option, on or after December 6, 2019, under certain circumstances at a redemption price equal to 100% of the principal amount of the 2021 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date (as defined in the indenture governing the 2021 Notes).

We may not redeem the 2021 Notes prior to December 6, 2019. We may redeem the 2021 Notes for cash, at our option, in whole or in part on or after December 6, 2019, if the last reported sale price per share of our Class C capital stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period.

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For additional information regarding the 2021 Notes, see Note 11 to our consolidated financial statements.

In January 2017, we acquired HREO for an immaterial amount. A substantial majority of the purchase price for HREO has been allocated to goodwill and intangible assets.

In June 2017, we purchased an equity interest in a privately held corporation for approximately \$10.0 million. For additional information regarding the equity interest, see Note 7 to our consolidated financial statements.

In September 2017, we acquired New Home Feed for an immaterial amount. A substantial majority of the purchase price for New Home Feed has been allocated to goodwill and an intangible asset.

The following table presents selected cash flow data for the periods presented:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
Cash Flow Data:			
Net cash provided by operating activities	\$ 258,191	\$ 8,645	\$ 22,659
Net cash provided by (used in) investing activities	(247,394)	(65,719)	64,441
Net cash provided by financing activities	97,706	71,528	16,273

Net Cash Provided By Operating Activities

Our operating cash flows result primarily from cash received from real estate professionals, mortgage professionals, rental professionals and brand advertisers. Our primary uses of cash from operating activities include payments for marketing and advertising activities and employee benefits and compensation. Additionally, uses of cash from operating activities include costs associated with operating our mobile applications and websites and other general corporate expenditures.

For the year ended December 31, 2017, net cash provided by operating activities was \$258.2 million. This was primarily driven by a net loss of \$94.4 million, adjusted by a non-cash impairment charge of \$174.0 million, depreciation and amortization expense of \$110.2 million, share-based compensation expense of \$113.6 million, an \$89.6 million non-cash change in our net deferred tax asset and valuation allowance as a result of the non-cash impairment charge and the rate decrease included in the Tax Cuts and Jobs Act, amortization of the discount and issuance costs on the 2021 Notes of \$18.0 million, an increase in bad debt expense of \$7.3 million, a change in deferred rent of \$7.1 million and a loss on disposal of property and equipment of \$5.7 million. Changes in operating assets and liabilities increased cash provided by operating activities by \$5.9 million. The changes in operating assets and liabilities are primarily due to a \$21.2 million increase in accounts receivable driven by an increase in revenue, a \$19.0 million increase in accrued expenses and other current liabilities due to growth in our business, partially offset by a \$10.8 million decrease in prepaid expenses and other assets driven primarily by the timing of payments.

For the year ended December 31, 2016, net cash provided by operating activities was \$8.6 million. This was driven by a net loss of \$220.4 million, including the impact of the settlement of a lawsuit for \$130.0 million in June 2016, adjusted by share-based compensation expense of \$106.9 million, depreciation and amortization expense of \$100.6 million, a loss on debt extinguishment of \$22.8 million, a loss on disposal of property and equipment of \$3.7 million, an increase in bad debt expense of \$2.7 million, an increase in the balance of deferred rent of \$1.7 million, amortization of bond premium of \$1.5 million, a \$1.4 million gain on the divestiture of a business, a

\$1.4 million non-cash change in the valuation allowance related to a deferred tax liability generated in connection with our February 2016 acquisition of Naked Apartments, and amortization of the discount and issuance costs on the 2021 Notes of \$0.9 million. Changes in operating assets and liabilities decreased cash

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provided by operating activities by \$8.9 million. The decrease in operating assets and liabilities is primarily due to a \$13.3 million decrease in accounts receivable driven by the timing of payments received, a \$13.3 million decrease in prepaid expenses and other assets driven by the timing of payments made, and a \$12.5 million increase in accrued compensation and benefits due primarily to an increase in sales commissions driven by increased sales as well as the timing of payroll.

For the year ended December 31, 2015, net cash provided by operating activities was \$22.7 million. This was driven by a net loss of \$148.9 million, adjusted by share-based compensation expense of \$105.2 million, depreciation and amortization expense of \$75.4 million, non-cash restructuring costs of \$19.0 million, a \$3.9 million non-cash loss on divestiture of businesses, net, bad debt expense of \$3.2 million, a \$2.9 million non-cash change in the valuation allowance related to a deferred tax liability generated in connection with our acquisition of DotLoop, Inc., an increase in the balance of deferred rent of \$2.6 million, amortization of bond premium of \$2.5 million, and a loss on disposal of property and equipment of \$1.4 million. Changes in operating assets and liabilities decreased cash provided by operating activities by \$38.8 million.

Net Cash Provided By (Used In) Investing Activities

Our primary investing activities include the purchase and sale or maturity of investments, the purchase of property and equipment and intangible assets, the purchase of cost method investments, net cash paid in connection with acquisitions and proceeds from divestiture of businesses.

For the year ended December 31, 2017, net cash used in investing activities was \$247.4 million. This was primarily the result of \$147.8 million of net purchases of investments, \$78.6 million of purchases for property and equipment and intangible assets, \$11.5 million paid in connection with acquisitions, and approximately \$10.0 million related to the purchase of a cost method investment, partially offset by \$0.6 million in proceeds from our August 2016 sale of our Diverse Solutions business.

For the year ended December 31, 2016, net cash used in investing activities was \$65.7 million. This was primarily the result of \$71.7 million of purchases for property and equipment and intangible assets, \$16.3 million paid in connection with our February 2016 acquisition of Naked Apartments and our August 2016 acquisition of Bridge Interactive, \$10.0 million related to the purchase of a cost method investment, partially offset by \$29.1 million of net maturities and sales of investments and \$3.2 million in proceeds from the divestiture of a business.

For the year ended December 31, 2015, net cash provided by investing activities was \$64.4 million. This was primarily the result of \$173.4 million of net cash acquired in connection with our February 2015 acquisition of Trulia, \$36.0 million of net proceeds from maturities and sales of investments, and \$23.4 million in proceeds from the divestiture of businesses, partially offset by \$104.2 million paid in connection with our acquisition of DotLoop, Inc., \$68.1 million of purchases for property and equipment and intangible assets and a \$3.9 million decrease in restricted cash.

The increases in capital expenditures and intangible assets during all three periods reflect our continued investments in support of business growth. We expect to continue to make significant investments in our business to provide for the continued innovation in our products and services in 2018 and thereafter.

Net Cash Provided By Financing Activities

For the year ended December 31, 2017, our financing activities primarily related to the exercise of employee option awards. The proceeds from the exercise of option awards for the year ended December 31, 2017 were \$98.1 million.

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For the year ended December 31, 2016, the proceeds from the issuance of the 2021 Notes, net of issuance costs, were \$447.8 million. The Company also paid approximately \$36.6 million in premiums for certain Capped Call Confirmations in December 2016. The Company used approximately \$370.2 million of the net proceeds

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from the issuance of the 2021 Notes to repurchase \$219.9 million aggregate principal of the 2020 Notes in privately negotiated transactions. The proceeds from the exercise of option awards for the year ended December 31, 2016 were \$31.2 million.

For the year ended December 31, 2015, the proceeds from the exercise of option awards were \$24.4 million. In addition, for the year ended December 31, 2015, approximately \$8.2 million of equity awards were withheld for tax liabilities.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements other than outstanding surety bonds issued for our benefit of approximately \$3.7 million and \$3.6 million, respectively, as of December 31, 2017 and 2016. We do not believe that the surety bonds will have a material effect on our liquidity, capital resources, market risk support or credit risk support. For additional information regarding the surety bonds, see Note 16 to our consolidated financial statements under the subsection titled Surety Bonds .

Contractual Obligations and Other Commitments

The following table provides a summary of our contractual obligations as of December 31, 2017:

	Total	Payment Due By Period			More Than 5 Years
		Less Than 1 Year	1-3 Years	3-5 Years	
	(in thousands, unaudited)				
2021 Notes (1)	\$ 460,000	\$	\$	\$ 460,000	\$
Interest on 2021 Notes (2)	36,033	9,200	18,400	8,433	
2020 Notes (3)	10,137			10,137	
Interest on 2020 Notes (4)	837	279	558		
Operating lease obligations (5)	162,171	25,510	49,585	48,354	38,722
Purchase obligations (6)	216,822	57,822	127,000	32,000	
Total contractual obligations	\$ 886,000	\$ 92,811	\$ 195,543	\$ 558,924	\$ 38,722

- (1) The aggregate principal amount of the 2021 Notes is due on December 1, 2021 if not earlier converted or redeemed.
- (2) The stated interest rate on the 2021 Notes is 2.00%.
- (3) The aggregate principal amount of the 2020 Notes is due on December 15, 2020 if not earlier converted or redeemed.
- (4) The stated interest rate on the 2020 Notes is 2.75%.
- (5) Our operating lease obligations consist of various operating leases for office space under noncancelable operating lease agreements. For additional information regarding our operating leases, see Note 16 to our consolidated financial statements.
- (6) We have noncancelable purchase obligations for content related to our mobile applications and websites. For additional information regarding our purchase obligations, see Note 16 to our consolidated financial statements.

We have excluded unrecognized tax benefits from the contractual obligations table above because we cannot make a reasonably reliable estimate of the amount and period of payment due primarily to our significant net operating loss carryforwards.

In the course of business, we are required to provide financial commitments in the form of surety bonds to third parties as a guarantee of our performance on and our compliance with certain obligations. If we were to fail to perform or comply with these obligations, any draws upon surety bonds issued on our behalf would then trigger our payment obligation to the surety bond issuer. We have outstanding surety bonds issued for our benefit of approximately \$3.7 million and \$3.6 million, respectively, as of December 31, 2017 and 2016.

Table of Contents**Critical Accounting Policies and Estimates**

Our consolidated financial statements are prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

We believe that the assumptions and estimates associated with revenue recognition, website and software development costs, recoverability of long-lived assets and intangible assets with definite lives, share-based compensation, income taxes, business combinations, and the recoverability of goodwill and indefinite-lived intangible assets, have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

Revenue Recognition

We recognize revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered to the customer, (iii) the fee is fixed or determinable, and (iv) collectability is reasonably assured. We consider a signed agreement, a binding insertion order or other similar documentation reflecting the terms and conditions under which products or services will be provided to be persuasive evidence of an arrangement. Collectability is assessed based on a number of factors, including payment history and the creditworthiness of a customer. If it is determined that collection is not reasonably assured, revenue is not recognized until collection becomes reasonably assured, which is generally upon receipt of cash.

We generate revenue from the sale of advertising services and our suite of marketing software and technology solutions to businesses and professionals primarily associated with the residential real estate, mortgage and rental industries. These professionals include real estate, mortgage and rental professionals and brand advertisers. Our two primary revenue categories are marketplace revenue and display revenue. Incremental direct costs incurred related to the acquisition or origination of a customer contract in a transaction that results in the deferral of revenue are expensed as incurred.

Marketplace Revenue. Marketplace revenue consists primarily of Premier Agent revenue, other real estate revenue and mortgages revenue. In addition, Market Leader revenue is included in our results of operations in Marketplace revenue from February 17, 2015 through the date of divestiture of September 30, 2015.

Premier Agent revenue is derived from our Premier Agent and Premier Broker programs. Our Premier Agent and Premier Broker programs offer a suite of marketing and business technology products and services to help real estate agents and brokers achieve their advertising needs, while growing and managing their businesses and brands. All Premier Agents and Premier Brokers receive access to a dashboard portal on our mobile application or website that provides individualized program performance analytics, self-service ad buying tools and our free customer relationship management, or CRM, tool that captures detailed information about each contact made with a Premier Agent or Premier Broker through our mobile and web platforms.

We offer our flagship Premier Agent advertising product and our Premier Broker advertising product on a cost per impression basis. Impressions are delivered when a sold advertisement appears on pages viewed by users of our mobile applications and websites. In 2016, we began testing and implementation of a new auction-based pricing method for our Premier Agent product by which we determine the cost per impression delivered in each zip code based upon the total amount spent by Premier Agents to purchase impressions in the zip code during the month. The

cost per impression that we charge is dynamic as demand for impressions in a zip code increases or decreases, the cost per impression in that zip code may be increased or decreased. This new auction-based pricing method complements our self-serve account interface, which we introduced to Premier Agents over the course of 2016. The interface includes account management tools that allow agent advertisers to independently control

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their budgets, impression buys, and the duration of their advertising commitment. We began testing this auction-based pricing method for our Premier Agent product to better align our revenue opportunities with increasing traffic levels to our mobile and web platforms and leveraging increasing demand by real estate agents for access to home shoppers who use our mobile applications and websites. In the fourth quarter of 2016, we implemented this method broadly for all existing and new agent advertisers, including brokerages and other teams. With this auction-based pricing method, we recognize revenue related to our dynamic impression-based Premier Agent and Premier Broker products based on the contractual maximum spend on a straight-line basis during the contractual period over which the services are delivered. Our Premier Agent and Premier Broker products include multiple deliverables which are accounted for as a single unit of accounting, as the delivery or performance of the undelivered elements is based on traffic to our mobile applications and websites. In our history of building our real estate and other information marketplaces and product offerings, we have continually evaluated and utilized various pricing and value delivery strategies in order to better align our revenue opportunities with the growth in usage of our mobile and web platforms.

From 2012 through the end of the third quarter of 2016, we had primarily charged customers for our Premier Agent product based on the number of impressions delivered on our buyer's agent list in zip codes purchased and a contracted maximum cost per impression. With this pricing method, we recognized revenue related to our impression-based Premier Agent product based on the lesser of (i) the actual number of impressions delivered on our buyer's agent list during the period multiplied by the contracted maximum cost per impression, or (ii) the contractual maximum spend on a straight-line basis during the contractual period over which the services are delivered, typically over a period of six months or twelve months and then month-to-month thereafter.

We continue to support some legacy Trulia Premier Agent products, which are primarily sold on a fixed fee subscription basis for periods that generally range from six months to 12 months. Subscription advertising revenue for Trulia's products included in Premier Agent revenue is recognized on a straight-line basis during the contractual period over which the services are delivered.

Other real estate revenue primarily includes revenue generated by Zillow Group Rentals, as well as revenue from the sale of various other marketing and business products and services to real estate professionals, including our new construction marketing solutions. Zillow Group Rentals includes our rentals marketplace and suite of tools for rental professionals. Rentals revenue primarily includes revenue generated by advertising sold to property managers and other rental professionals on a cost per lead, cost per lease and cost per click generated basis whereby we recognize revenue as leads are delivered to rental professionals or as qualified leases are confirmed. Our new construction marketing solutions allow home builders to showcase their available inventory to home shoppers. New construction revenue primarily includes revenue generated by advertising sold to builders on a cost per residential community basis whereby revenue is recognized based on the contractual spend on a straight-line basis during the contractual period over which the services are delivered.

Mortgages revenue primarily includes marketing products sold to mortgage professionals on a cost per lead basis, including our Long Form and Custom Quote services. Mortgages revenue also includes revenue generated by Morteck, which provides subscription-based mortgage software solutions, including a product and pricing engine and lead management platform, for which we recognize revenue on a straight-line basis during the contractual period over which the services are delivered. For our Long Form and Custom Quote cost per lead mortgage marketing products, generally, participating qualified mortgage professionals make a prepayment to gain access to consumers interested in connecting with mortgage professionals. In Zillow Group's Long Form platform, consumers answer a series of questions to find a local lender, and mortgage professionals receive consumer contact information. Consumers who request rates for mortgage loans in Custom Quotes are presented with customized quotes from participating mortgage professionals. We only charge mortgage professionals a fee when users contact mortgage professionals through Long Form or Custom Quotes. Mortgage professionals who exhaust their initial prepayment can then prepay additional

funds to continue to participate in the marketplace. We recognize revenue when a user contacts a mortgage professional through Zillow Group's mortgages platform.

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Market Leader revenue primarily includes revenue from the sale of a comprehensive premium software-as-a-service based marketing product typically sold to real estate professionals as a bundle of products under a fixed fee subscription. Market Leader became part of Zillow Group through Zillow Group's February 2015 acquisition of Trulia and was divested as of September 30, 2015.

Display Revenue. Display revenue primarily consists of graphical mobile and web advertising sold on a cost per thousand impressions or cost per click basis to advertisers promoting their brands on our mobile applications and websites and our partner websites and mobile applications, primarily in the real estate industry, including real estate brokerages, multi-family rental professionals, mortgage professionals and home services providers. Our advertising customers also include telecommunications, automotive, insurance and consumer products companies. Impressions are the number of times an advertisement is loaded on a web page and clicks are the number of times users click on an advertisement. Pricing is primarily based on advertisement size and position on our mobile applications and websites or on our partner websites and mobile applications, and fees are generally billed monthly. We recognize display revenue as clicks occur or as impressions are delivered to users interacting with our mobile applications or websites.

Upon our January 1, 2018 adoption of the new guidance issued by the FASB on revenue from contracts with customers, we expect that the number of estimates and assumptions we make will increase related to revenue recognition and the incremental costs of obtaining a contract with a customer, including, but not limited to, estimates and assumptions related to variable consideration, practical expedients applied, and the period over which commission costs will be recognized.

Website and Software Development Costs

The costs incurred in the preliminary stages of website and software development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct and incremental and deemed by management to be significant, are capitalized in property and equipment and amortized on a straight-line basis over their estimated useful lives. Maintenance and enhancement costs (including those costs in the post-implementation stages) are typically expensed as incurred, unless such costs relate to substantial upgrades and enhancements to the websites (or software) that result in added functionality, in which case the costs are capitalized and amortized on a straight-line basis over the estimated useful lives.

Capitalized development activities placed in service are amortized over the expected useful lives of those releases, currently estimated at one to two years. Estimated useful lives of website and software development activities are reviewed frequently and adjusted as appropriate to reflect upcoming development activities that may include significant upgrades and/or enhancements to the existing functionality.

We exercise judgment in determining the point at which various projects may be capitalized, in assessing the ongoing value of the capitalized costs, and in determining the estimated useful lives over which the costs are amortized. To the extent that we change the manner in which we develop and test new features and functionalities related to our mobile applications and websites, assess the ongoing value of capitalized assets, or determine the estimated useful lives over which the costs are amortized, the amount of website and software development costs we capitalize and amortize could change in future periods.

Recoverability of Intangible Assets with Definite Lives and Other Long-Lived Assets

We evaluate intangible assets and other long-lived assets for impairment whenever events or circumstances indicate that they may not be recoverable. Recoverability is measured by comparing the carrying amount of an asset group to future undiscounted net cash flows expected to be generated. We group assets for purposes of such review at the

lowest level for which identifiable cash flows of the asset group are largely independent of the cash flows of the other groups of assets and liabilities. If this comparison indicates impairment, the amount of impairment to be recognized is calculated as the difference between the carrying value and the fair value of the asset group.

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Unforeseen events, changes in circumstances and market conditions and material differences in estimates of future cash flows could adversely affect the fair value of our assets and could result in an impairment charge. Fair value can be estimated utilizing a number of techniques including quoted market prices, prices for comparable assets, or other valuation processes involving estimates of cash flows, multiples of earnings or revenues, and we may make various assumptions and estimates when performing our impairment assessments, particularly as it relates to cash flow projections. Cash flow estimates are by their nature subjective, and include assumptions regarding factors such as recent and forecasted operating performance, revenue trends and operating margins. These estimates could also be adversely impacted by changes in federal, state, or local regulations, economic downturns or developments, or other market conditions affecting our industry.

Share-Based Compensation

We measure compensation expense for all share-based awards at fair value on the date of grant and recognize compensation expense over the service period for awards expected to vest. We use the Black-Scholes-Merton option-pricing model to determine the fair value for option awards and recognize compensation expense on a straight-line basis over the option awards' vesting period. For restricted stock units and restricted units, we use the market value of our Class A common stock and Class C capital stock, as applicable, on the date of grant to determine the fair value of the award, and we recognize compensation expense on a straight-line basis over the awards' vesting period.

Determining the fair value of option awards at the grant date requires judgment. If any of the assumptions used in the Black-Scholes-Merton model changes significantly, share-based compensation expense for future option awards may differ materially compared with the awards granted previously. In valuing our option awards, we make assumptions about risk-free interest rates, dividend yields, volatility, and weighted-average expected lives. In addition, through December 31, 2016, we made assumptions about estimated forfeiture rates. Beginning on January 1, 2017, we elected to account for forfeitures as they occur.

Risk-free interest rate. Risk-free interest rates are derived from U.S. Treasury securities as of the option award's grant date.

Expected dividend yields. Expected dividend yields are based on our historical dividend payments, which have been zero to date.

Volatility. The expected volatility for our Class A common stock and Class C capital stock is estimated using our historical volatility.

Expected term. The weighted-average expected life of the option awards is estimated based on our historical exercise data.

Forfeiture rate. Prior to January 1, 2017, forfeiture rates were estimated using historical actual forfeiture trends as well as our judgment of future forfeitures. These rates were evaluated at least quarterly and any change in share-based compensation expense was recognized in the period of the change. We considered many factors when estimating expected forfeitures, including employee class and historical experience.

We will continue to use judgment in evaluating the expected volatility and expected terms utilized for our share-based compensation expense calculations on a prospective basis. Actual results, and future changes in estimates, may differ substantially from management's current estimates. As we continue to accumulate additional data related to our Class A common stock and Class C capital stock, we may have refinements to the estimates of our expected volatility

and expected terms, which could materially impact our future share-based compensation expense. In future periods, we expect our share-based compensation expense to increase as a result of our existing, unrecognized share-based compensation that will be recognized as the awards vest, and as we grant additional share-based awards to attract and retain employees.

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Income Taxes

We use the asset and liability approach for accounting and reporting income taxes, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax bases of assets and liabilities at the applicable enacted tax rates. A valuation allowance against deferred tax assets would be established if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50%) that some or all of the deferred tax assets are not expected to be realized.

Our assumptions, judgments, and estimates relative to the value of our deferred tax assets take into account predictions of the amount and category of future taxable income, such as income from operations or capital gains income. Actual operating results and the underlying amount and category of income in future years could render our current assumptions, judgments, and estimates of recoverable net