

Analyst Report: Zillow Group, Inc. (ZG)

Industries: Communications, Internet, E-Commerce

Zillow Group is adapting to a challenging housing market by transitioning towards a technology-focused business model, leveraging its strong brand and extensive user base.

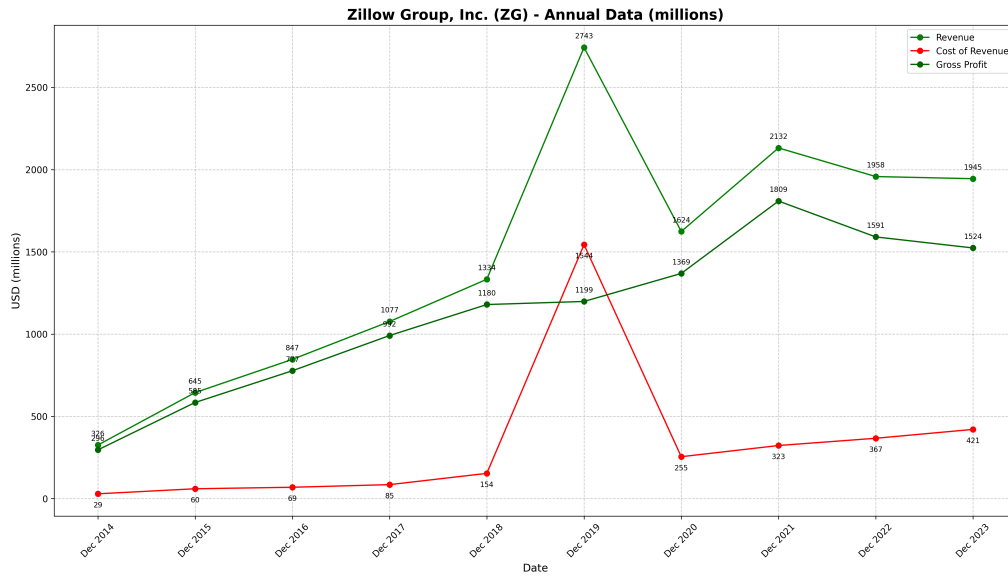
Forward Valuations	Bullish	Bearish
Implied Option Valuation	\$60.00 - \$70.00	\$40.00 - \$50.00
Sum of the Parts	\$55.00 - \$65.00	\$35.00 - \$45.00
Relative Multiples	\$50.00 - \$60.00	\$30.00 - \$40.00
Discounted Cash Flow	\$45.00 - \$55.00	\$25.00 - \$35.00

SUMMARY DATA (ANNUAL)

52-Week High	\$83.67
52-Week Low	\$38.06
Shares	233.57
EPS	-0.68
Dividend	0
Revenue	1,945
Cost of Revenue	421
Gross Profit	1,524
EBIT	-118

OUTLOOK

Zillow Group's outlook for the next two quarters is cautiously optimistic. The company expects to benefit from its recent acquisition of Follow Up Boss and continued growth in its rentals segment. However, the overall performance will be contingent on the housing market's trajectory, especially the direction of interest rates and inventory levels. Zillow's continued investment in technology and its focus on improving user experiences are expected to drive platform engagement. The company anticipates a seasonal increase in activity in the spring and summer, though the extent of this increase will depend on prevailing market conditions. Managing costs and effectively integrating new products and services will be crucial to achieving profitability targets. Zillow will also be closely monitoring the impact of industry regulations and competition on its performance. Overall, the company anticipates continued challenges in the near term while remaining focused on its long-term growth strategy.



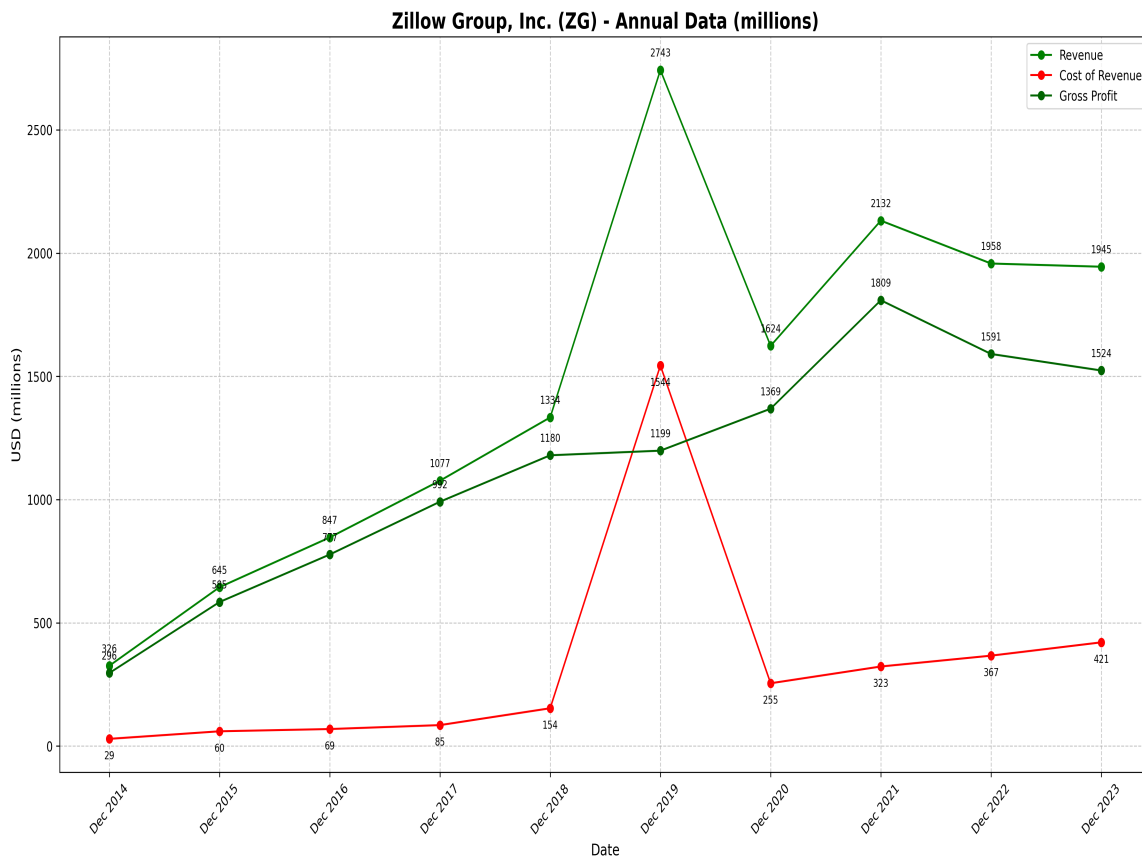
1. Business Description

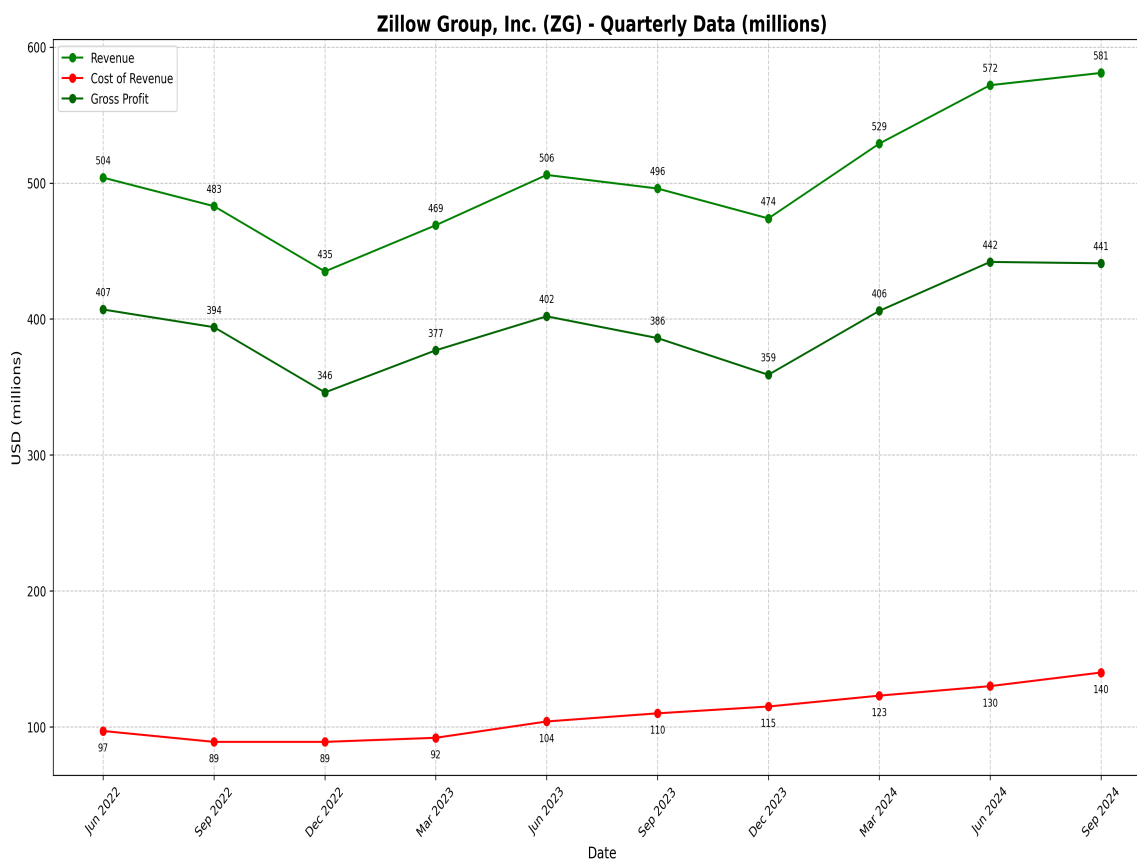
Zillow Group, Inc. is a digital real estate company that connects consumers with real estate agents, brokers, mortgage professionals, property managers, landlords, and home builders. Its business model centers around the Zillow platform, which hosts a database of roughly 160 million U.S. homes. It generates revenue through advertising, primarily from Premier Agent partners, and through mortgage originations by Zillow Home Loans, along with other sources such as rentals and display advertising. The company's key competitive advantages include its extensive database, advanced data analytics capabilities, prominent brand, strategic partnerships within the real estate industry, and its skilled leadership team. Key areas of focus for Zillow Group are enhancing customer experience, expanding seller services, improving its partner network, and developing a "housing super app". Key strategic acquisitions include Follow Up Boss, a CRM for real estate professionals. Zillow Offers, the company's iBuying business, was discontinued in 2022.

Zillow Group's financials show a decline in total revenue from \$2 billion in 2022 to \$1.9 billion in 2023, impacted by macro housing market challenges such as low inventory, rising interest rates, and affordability issues. However, the company demonstrated resilience by achieving revenue growth that outpaced industry performance. Key metrics such as visits to the Zillow platform decreased, but average monthly unique users remained substantial. Zillow Home Loans experienced significant growth in purchase loan origination volumes, offsetting a decline in refinance activity due to the higher interest rate environment. Despite the challenging macro environment, Zillow Group remains focused on its long-term vision and growth pillars. Key priorities include leveraging technology to improve user experiences, enhancing the partner network, and expanding its service offerings. These strategic initiatives, along with a strong balance sheet and consistent investment in its platform, position Zillow Group to navigate industry headwinds and achieve long-term growth and profitability.

2. Financial Analysis

Zillow Group's financial performance over the past decade reflects a period of substantial growth followed by a period of adjustment and refocusing. Revenue has grown significantly, though the trajectory has been affected by the wind-down of the Zillow Offers iBuying business and challenging housing market conditions. Profitability has been variable, with periods of net income followed by losses as the company invested in new initiatives and navigated market headwinds. The balance sheet reveals a generally strong liquidity position, primarily due to cash reserves and access to credit facilities, though debt levels have also fluctuated in line with strategic activities. Analyzing the last 10 quarters reveals a recent trend of revenue stabilization following a period of decline. Profitability metrics have also stabilized, indicating the impact of cost management and strategic refocusing. The balance sheet shows a consistent effort to maintain a robust liquidity position while addressing debt obligations. Overall, the financial evolution of Zillow Group suggests a transition from a period of rapid growth and expansion to one of consolidation and strategic repositioning, aimed at maintaining a strong financial foundation while navigating a changing real estate market.





BALANCE SHEET, LAST 10 YEARS

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Assets	6,652	6,563	10,695	7,486.56	6,131.97	4,291.12	3,230.52	3,149.68	3,135.70	649.73
Total Debt	1,832	1,867	1,604	2,519.76	2,513.03	848.74	385.42	367.40	230	0
Shares	233.57	242.16	249.94	223.85	206.38	197.94	186.45	180.15	169.77	120.03
EPS	-0.68	-0.42	-2.11	-0.72	-1.48	-0.61	-0.51	-1.22	-0.88	-0.36
Dividend	0	0	0	0	0	0	0	0	0	0
Revenue	1,945	1,958	2,132	1,624	2,742.84	1,333.55	1,076.79	846.59	644.68	325.89
Cost of Revenue	421	367	323	255	1,544.10	153.59	85.20	69.26	60.13	29.46
Gross Profit	1,524	1,591	1,809	1,369	1,198.74	1,179.96	991.59	777.33	584.55	296.43
EBIT	-118	-63	-401	-32	-207.83	-109.70	-156.49	-212.90	-148.03	-43.61

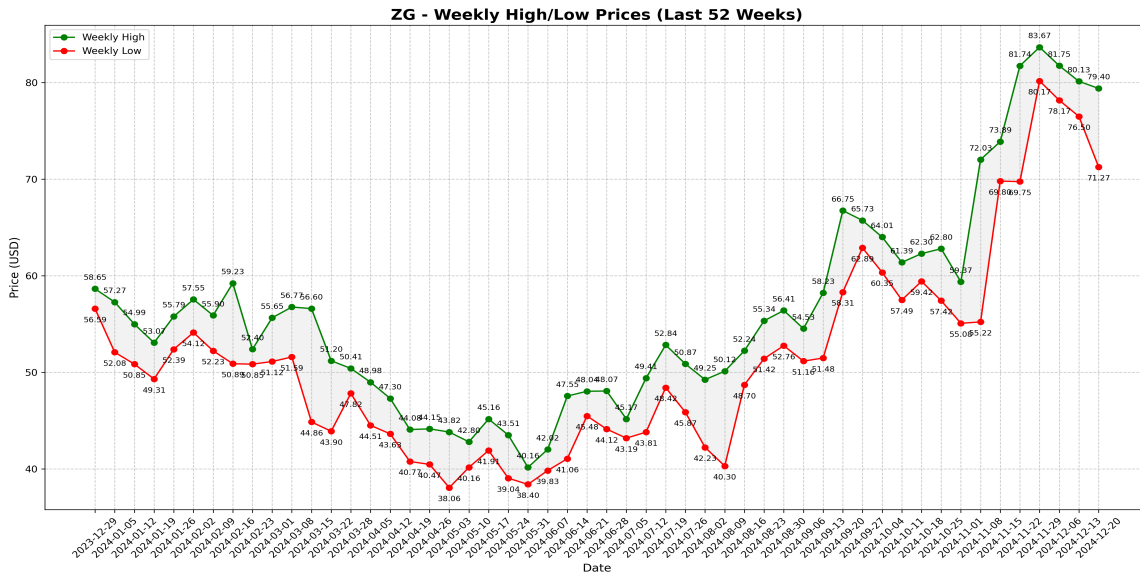
(* millions, except EPS and dividend)

BALANCE SHEET, LAST 10 QUARTERS

	2024 Q3	2024 Q2	2024 Q1	2023 Q4	2023 Q3	2023 Q2	2023 Q1	2022 Q4	2022 Q3	2022 Q2
Total Assets	6,159	6,628	6,823	6,652	6,656	6,618	6,614	6,563	6,718	6,783
Total Debt	1,164	1,809	1,851	1,832	1,902	1,884	1,865	1,867	1,875	1,890
Shares	232.52	233.45	234.69	227.62	233.29	233.63	234.43	236.18	240.08	243.94
EPS	-0.08	-0.07	-0.10	-0.32	-0.12	-0.15	-0.09	-0.30	-0.22	0.03
Dividend	0	0	0	0	0	0	0	0	0	0
Revenue	581	572	529	474	496	506	469	435	483	504
Cost of Revenue	140	130	123	115	110	104	92	89	89	97
Gross Profit	441	442	406	359	386	402	377	346	394	407
EBIT	-11	-5	-12	-61	-19	-25	-13	-59	-41	8

(* millions, except EPS and dividend)

3. Stock Technical Analysis



Analysis of Zillow Group's (ZG) stock price over the past 52 weeks reveals a dynamic trajectory influenced by both company-specific events and broader market trends. The stock price has experienced periods of both significant gains and substantial declines, reflecting the inherent volatility of the technology and real estate sectors. Overall, the stock's movement reflects investors' sentiment towards the company's strategic direction, its financial performance, and the overall housing market outlook. A detailed technical analysis would involve examining price charts, identifying key support and resistance levels, and assessing trading volumes to predict potential future price movements. This analysis might include the use of various technical indicators such as moving averages, relative strength index, and Bollinger Bands. It would also consider broader market trends and their potential impact on the stock price. Given the target audience of financial professionals, using more complex technical analysis concepts such as Elliott Wave Theory or Fibonacci retracements could also enhance the report. Analyzing patterns in price movements and trading volumes will be essential to identifying potential breakout points or reversal signals, providing traders with insights to inform their investment strategies.

4. Current Media Coverage & Stories

Zillow Group has been featured prominently in the news recently due to a combination of factors, including corporate leadership changes, strategic acquisitions, legal disputes, and industry trends. A recurring theme in the headlines is the company's ongoing adaptation to a challenging housing market, marked by low inventory and rising interest rates. The acquisition of Follow Up Boss, a customer relationship management (CRM) platform, has garnered significant attention as it signals Zillow's intent to deepen its engagement with real estate professionals and enhance its suite of software offerings. Leadership transitions, notably Rich Barton's departure as CEO, have also been widely reported, prompting speculation about the company's future direction. Legal challenges, such as the lawsuit with the Arizona Regional Multiple Listing Service, highlight the complexities of navigating evolving industry regulations and competitive pressures. Other news coverage focuses on Zillow's initiatives to incorporate climate risk data into its listings, reflecting a growing awareness of environmental factors in real estate decisions. Overall, the media portrayal of Zillow Group depicts a company in transition, actively seeking growth opportunities while navigating a dynamic and complex real estate landscape. The prominence of Zillow in recent news reflects the company's significant influence within the industry and its efforts to remain at the forefront of innovation and change.

5. Financial vs. Stock vs. Media Coverage Situations

The media narratives surrounding Zillow Group largely align with the company's financial data and stock price movement over the past year. The headlines reflect Zillow's efforts to adapt to a challenging housing market and diversify its revenue streams. The acquisition of Follow Up Boss, highlighted in several news reports, directly addresses the company's focus on enhancing its partner network and providing integrated software solutions. This strategic move is consistent with the company's transition towards a more tech-focused business model, reflected in the financial data through increased investments in technology and development. The news coverage surrounding CEO transitions aligns with the financial data's indication of strategic adjustments, aiming to optimize performance in a shifting market. The stock price volatility over the past year mirrors the uncertainty conveyed in media reports about the housing market and Zillow's ability to maintain profitability. The lawsuit with the Arizona Regional Multiple Listing Service, as covered by the media, underscores the regulatory challenges facing the company, which may influence investors' perception of Zillow's future prospects. Overall, the media headlines and the company's financial and stock market performance paint a picture of Zillow navigating a complex transition, seeking to leverage its strengths to overcome market headwinds and capitalize on long-term growth opportunities.

6. Industry Analysis

The real estate industry is undergoing a period of significant transformation, driven by technological advancements, changing consumer behavior, and macroeconomic shifts. Zillow Group and its competitors face both opportunities and challenges in this evolving environment. The industry is characterized by increasing digitization, with consumers increasingly relying on online platforms for property searches, financing, and real estate services. This trend has led to a rise in competition among online real estate portals, with companies vying for market share by offering enhanced features, data analytics, and customer service. Regulatory changes, including antitrust scrutiny and evolving data privacy laws, create a complex landscape that companies must navigate carefully. The housing market itself has experienced significant volatility, with rising interest rates and low inventory impacting sales volumes. These macroeconomic conditions are creating headwinds for companies like Zillow Group, which rely on a healthy real estate market for growth. However, the long-term trend towards digitization and the increasing demand for integrated real estate services present significant growth opportunities for companies that can adapt and innovate. Zillow Group's strategic positioning, with its established brand, extensive database, and focus on technology solutions, gives it a competitive edge in this evolving landscape.

7. Drivers & Challenges

Zillow Group faces a complex interplay of drivers and challenges in the current real estate landscape. Key drivers include the ongoing digitization of the industry, the growing consumer demand for integrated real estate services, and Zillow's strong brand recognition and extensive user base. The company's ability to generate comprehensive market data through its platform also serves as a significant driver, providing valuable insights for both consumers and real estate professionals. The acquisition of companies like Follow Up Boss further strengthens Zillow's position by expanding its software offerings and deepening its engagement with real estate agents. However, significant challenges remain. The volatile macroeconomic environment, with rising interest rates and low housing inventory, is creating headwinds for the entire real estate industry. Regulatory pressures, particularly antitrust scrutiny and evolving data privacy laws, add complexity and potential costs. Zillow also faces ongoing competition from other established online real estate portals, requiring consistent innovation and investment to maintain its market position. Adapting to the changing expectations of consumers and real estate professionals, while balancing cost management with growth initiatives, represents another key challenge. Zillow Group's success will depend on its ability to capitalize on technological drivers while effectively managing macroeconomic and regulatory challenges.

8. Bull Case

In a bullish scenario, several factors could converge to drive substantial growth for Zillow Group. A stabilization of the housing market, with moderating interest rates and increasing inventory, would reignite transaction volumes, boosting demand for Zillow's core advertising and mortgage origination services. Successful integration of Follow Up Boss and ShowingTime+ would enhance the company's offerings, attracting more real estate professionals to its platform and increasing revenue per customer. Zillow's strategic investments in artificial intelligence and other technologies could further improve user experiences, strengthening its competitive advantage. The company's strong brand recognition and extensive user base provide a solid foundation for growth, particularly if Zillow can successfully capitalize on the growing demand for integrated real estate services. A continued focus on innovation and customer-centric strategies could further solidify Zillow's position as a leading real estate technology platform. In this optimistic outlook, Zillow could achieve sustainable profitability and significant stock price appreciation.

10. Forward Valuation

Forward valuation for Zillow Group involves using various pricing models to estimate the stock's intrinsic value, considering bullish and bearish scenarios. Discounted Cash Flow (DCF) analysis projects future free cash flows, discounted back to their present value. A bullish DCF might assume a housing market recovery and successful technology integration, leading to higher cash flow projections and a higher valuation. A bearish DCF would incorporate a more pessimistic outlook. Relative valuation uses comparable company multiples to determine Zillow's value. A bullish approach would apply higher multiples, reflecting optimism about Zillow's growth potential. Sum-of-the-Parts (SOTP) analysis values each business segment separately. A bullish SOTP would assign higher valuations to each segment. Implied Option valuation models consider the value of embedded options, such as growth opportunities. A bullish model might incorporate a higher probability of success for growth initiatives. For specific valuation numbers, please refer to the dedicated fields in this JSON response.

11. Executive Summary

Zillow Group is navigating a period of significant transition in the real estate industry. Key drivers for the company include the ongoing digitization of real estate services, its established brand recognition, and its ability to generate valuable market data. The recent acquisition of Follow Up Boss strengthens its partner network and expands its software solutions, aligning with the growing demand for integrated services. However, Zillow faces headwinds from the challenging macroeconomic environment, regulatory pressures, and ongoing competition. The company's success hinges on its ability to adapt to a volatile housing market, manage integration risks, and innovate to maintain its competitive edge. Zillow's strong financial position and strategic focus on technology and customer-centric solutions position it to capitalize on long-term growth opportunities, but the near-term outlook remains subject to market and industry dynamics.