

# Zillow (ZG) – Long PT: \$100.27



Today's Price: \$64.93  
Market Cap: \$16.24 B  
Industry: Real Estate Services  
Headquarters: Seattle, WA

*A company with significant upside potential after cutting out its costly error and refocusing on its core business model.*

## Business Overview

Zillow offers customers an on-demand experience for selling, buying, renting and financing real estate through a very transparent and seamless process with end-to-end service. It is the leading real estate and rental website in the United States, buying and selling homes directly in dozens of markets.

**Revenue Segmentation:** Split into 3 different segments - Homes, IMT (Internet, Media and Technology), and Mortgages.

## Thesis Points

**1. Zillow Just Got Rid of its Costly Error:** Zillow recently exited the iBuying business after realizing that investing in this division continuously led to a negative EBIT and a net loss. Zillow will now be able to refocus on their core business, which is its online platform and listing services. It has also seen consistent growth in this division in the past and if management pivots to put all their efforts here, growth will be very strong.

**2. Customer Stickiness Drives Profitability:** The advanced technological platform of Zillow allows for customers to have a seamless experience for all of their real estate needs. There is a shift towards digital-first real estate transactions, and the power of a digital platform is becoming increasingly important for young adults. Millennials represent the largest generation of home buyers, and will drive housing trends and demand for years to come. Having customers that are going to stick around for years to come will continue to drive long-term profitability that will further grow as more consumers enter the real estate market

**3. Growth Optionality:** Zillow has consistently increased its cash since 2017. In 2020 alone, it had a \$548 million net increase. All this cash will allow Zillow to reinvest into its business and also acquire more companies in the future. Zillow is also adding new tools for agents and buyers/sellers such as a rental property calculator and checklists for people moving in and out. With these tools being fully implemented, it can charge higher rates to their consumers. Zillow is the real estate website with the highest traffic out of all its competitors and also offers incentives for consumers to use the website, leading to inevitable growth in the company.

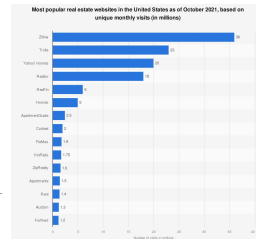
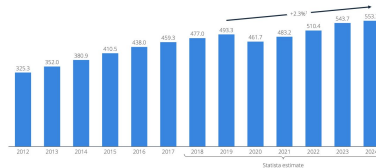


ZG [NASDAQ]  
**Zillow Group, Inc.**  
Communication Services | Internet Content & Information | USA

## Industry Overview

Zillow is at the forefront of the digitization of the real estate industry as the dominant service future home buyers look to in their search efforts. Zillow primary competitors within this industry include Redfin, Move.com (parent of Realtor.com), CoStar Group (parent of Apartments.com and Houses.com), and OpenDoor. Of these, Zillow and Trulia outperform them all in unique monthly visitors. Further, the real estate industry as a whole is shifting to a greater focus in digital technologies as younger generations continue to turn to the internet as their primary source for home buying. Further, the industry is expected to grow by an estimated 2.3% from 2019-2024, reaching revenues of about \$553.3B. Lastly, the real estate market is currently facing excess demand that exceeds current houses for sale, driving up prices.

Revenue in Billion US\$



Graphics: Revenue growth (left), October unique website visitors (right)

## Additional Commentary – Valuation/Risks/News

**Valuation:** The valuation resulted in an implied upside of 53% for exit multiple and 55% for perpetuity growth. The comparables analysis shows that the valuation is relatively conservative compared to its comparables. The revenue estimates are driven by our growth theses for the company, and are in line with industry expectations.

**Risks:** Currently under investigation, faulted algorithm, and subsequent to changes in real estate and home buying market.

**News:** Zillow stock price dropped 39% since its peak after it announced its exit from the iBuying business. The company also plans to sell 7,000 homes for ~2.8 billion dollars.

