UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

AARON WINSTON HILLIER, Individually and on Behalf of All Others Similarly Situated, Plaintiff, v. ZILLOW GROUP, INC., RICHARD N. BARTON, LLOYD D. FRINK, ALLEN W. PARKER, and JEREMY WACKSMAN, Defendants.	Civil Action No. Complaint—Class Action **CLASS ACTION COMPLAINT FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS** **JURY DEMAND**

Plaintiff Aaron Winston Hillier ("Plaintiff"), by and through his counsel, alleges the following based upon personal knowledge as to himself and his own acts, and upon information and belief as to all other matters, including the investigation of Plaintiff's counsel, which included, among other things, a review of Defendants' (defined below) United States Securities and Exchange Commission ("SEC") filings, wire and press releases published by Zillow Group, Inc. ("Zillow" or the "Company"), analyst reports and advisories about the Company, media reports concerning the Company, judicial filings and opinions, and other publicly available information. Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

I. NATURE OF THE ACTION AND OVERVIEW

1. This is a federal securities class action on behalf of all persons or entities that purchased or otherwise acquired Zillow securities between August 7, 2020, and November 2, 2021, inclusive (the "Class Period"). The claims asserted herein are alleged against Zillow and certain of the Company's senior executives, and arise under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act"), and Rule 10b-5 promulgated thereunder.

2. Zillow, a Washington corporation with principal executive offices in Seattle, Washington, is a real estate services company that operates popular real estate websites including Zillow and Trulia. In addition to the generation of advertising revenue from these websites, Zillow earns referral fees when matching prospective buyers and sellers with real estate agents and brokers. Since April 2018, the Company has also operated its Zillow Offers program, through which the Company directly purchases homes from sellers, makes certain repairs and updates to these properties, and subsequently resells the homes to purchasers.

3. This Complaint alleges that, throughout the Class Period, Defendants made materially false and/or misleading statements, as well as failed to disclose material adverse facts, about the Company's business and operations. Specifically, Defendants repeatedly, falsely touted the strength and sustainability of the Company's Zillow Offers business and failed to disclose to

investors that: (1) the Company knew that it did not have the ability to properly price homes for its Zillow Offers business; (2) this inability, in addition to labor and supply shortages, resulted in a backlog of inventory in the Zillow Offers business; (3) as a result of the foregoing, the Company was reasonably likely to wind-down its Zillow Offers business, which would have a material adverse impact of the Company's financial results; and (4) as a result of the foregoing, Defendants positive Class Period statements about the Company's business, operations, and prospects were materially misleading and/or lacked a reasonable basis.

4. The truth about Defendants' false and/or misleading statements began to emerge on October 4, 2021, when analysts from RBC Capital Markets lowered their price target for Zillow, warning that Zillow Offers would likely miss quarterly expectations. On this news, the price of Zillow common stock (ZG) declined $5.72 per share, or more than 6%, from a close of $91.40 per share on October 1, 2021, to close at $85.68 per share on October 4, 2021. Similarly, the price of Zillow capital stock (Z) declined $4.98 per share, or approximately 5.5%, from a close of $90.36 per share on October 1, 2021, to close at $85.38 per share on October 4, 2021.

5. Additional corrective information surfaced several weeks later, on October 18, 2021, when Zillow announced that, "[d]ue to a backlog in renovations and operational capacity constraints," Zillow Offers "will not sign any new, additional contracts to buy homes through the end of the year." On this news, the price of Zillow common stock (ZG) declined $8.84 per share, or more than 9%, from a close of $94.30 per share on October 15, 2021, to close at $85.46 per share on October 18, 2021. Similarly, the price of Zillow capital stock (Z) declined $8.97 per share, or more than 9%, from a close of $94.97 per share on October 15, 2021, to close at $86.00 per share on October 18, 2021.

6. Then, on November 1, 2021, media outlets reported that, pursuant to a detailed analysis by KeyBanc Capital Markets, most of the homes Zillow Offers inventory were now worth less than the Company paid for them, and that Zillow was looking to sell off 7,000 homes. In response to this news, the price of Zillow common stock (ZG) declined $20.24 per share over two

trading days, or more than 19%, from a close of $105.72 per share on October 29, 2021, to close at $85.48 per share on November 2, 2021. Similarly, the price of Zillow capital stock (Z) declined $16.43 per share, or nearly 16%, from a close of $103.63 per share on October 29, 2021, to close at $87.20 per share on November 2, 2021.

7. After the market close on November 2, 2021, Zillow released its third quarter 2021 financial results and announced that it was "wind[ing] down" the Zillow Offers program. In doing so, Zillow revealed that it would need to take write-downs of approximately $569 million and would be reducing its workforce by 25%. On this news, the price of Zillow common stock (ZG) plummeted an additional $19.62 per share, or approximately 23%, to close at $65.86 per share on November 3, 2021. Similarly, the price of Zillow capital stock (Z) fell $21.73 per share, or approximately 25%, to close at $65.47 per share on November 3, 2021.

8. As a result of Defendants' wrongful acts and omissions, and the resulting declines in the market value of the Company's securities, Plaintiff and other members of the class have suffered significant damages.

II. JURISDICTION AND VENUE

9. Plaintiff's claims asserted herein arise under Sections 10(b) and 20(a) of the Exchange Act, 15 U.S.C. §§ 78j(b) and 78t(a), and Rule 10b-5, promulgated thereunder, 17 C.F.R. § 240.10b-5. This Court has jurisdiction over the subject matter of this action under 28 U.S.C. § 1331 and Section 27 of the Exchange Act, 15 U.S.C. § 78aa.

10. Venue is proper in this District under Section 27 of the Exchange Act, 15 U.S.C. § 78aa, and 28 U.S.C. § 1391(b), because the Company is headquartered in this District, Defendants conduct business in this District, and many of the acts and conduct that constitute the violations of law complained of herein, including the preparation and dissemination to the public of materially false and misleading information, occurred in this District.

11. In connection with the acts, conduct, and other wrongs alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce,

including, but not limited to, the United States mails, interstate telephone communications, and the facilities of the national securities markets.

III. PARTIES

12. Plaintiff, as set forth in the accompanying certification, incorporated by reference herein, purchased Zillow Class C capital stock at artificially inflated prices during the Class Period and suffered damages as result of the violations of the federal securities laws alleged herein.

13. Defendant Zillow is a Washington corporation with its principal executive offices located in Seattle, Washington. Zillow's Class A common stock trades on the NASDAQ under the ticker symbol "ZG" and its Class C capital stock trades on the NASDAQ under the ticker symbol "Z."

14. Defendant Richard N. Barton ("Barton"), the Company's co-founder, is, and was throughout the Class Period, the Company's Chief Executive Officer.

15. Defendant Lloyd D. Frink ("Frink"), the Company's co-founder, is, and was throughout the Class Period, the Company's President and Executive Chairman.

16. Defendant Allen W. Parker ("Parker") is, and was throughout the Class Period, the Company's Chief Financial Officer.

17. Defendant Jeremy Wacksman ("Wacksman") is, and was since February 2021, the Company's Chief Operating Officer.

18. Defendants Barton, Frink, Parker, and Wacksman are collectively referred to herein as the "Individual Defendants."

19. The Individual Defendants, because of their positions with the Company, possessed the power and authority to control the contents of the Company's reports to the SEC, press releases, and presentations to securities analysts, money and portfolio managers, and institutional investors, *i.e.*, the market. Each Individual Defendant was provided with copies of the Company's reports and press releases alleged herein to be misleading prior to, or shortly after, their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of

their positions and access to material non-public information available to them, each of the Individual Defendants knew that the adverse facts specified herein had not been disclosed to, and/or were being concealed from, the public, and that the positive representations that were being made were then materially false and/or misleading.

20. The Company and the Individual Defendants are collectively referred to herein as "Defendants."

IV. SUBSTANTIVE ALLEGATIONS

A. Background

21. In April 2018, prior to the start of the Class Period, the Company launched its Zillow Offers in two test markets: Las Vegas and Phoenix.

22. The Zillow Offers program was a significant driver of revenue growth for the Company as the program continued to expand substantially. By the end of 2019, the Company was buying and selling homes directly in 22 markets and Zillow Offers "accounted for nearly $1.4 billion of revenue for the year." In fact, Zillow Offers accounted for roughly half of the Company's total revenue in 2019.

B. Defendants' False and/or Misleading Statements

23. The Class Period begins on August 7, 2020, to coincide with the publication of the Company's second quarter 2020 financial results after the market closed on August 6, 2020. In connection with its quarterly results, Zillow reported that "quarterly revenue grew 28% year over year to $768 million, driven primarily by a continued increase in Zillow Offers resale volume." Critically, the Company explained that while "Zillow Offers entered Q2 with home acquisitions temporarily paused due to market uncertainty" resulting from the COVID-19 pandemic, "[d]uring the quarter, the company sold 1,437 homes and purchased 86 homes through Zillow Offers, ending Q2 with 440 homes in inventory" and "is now actively purchasing homes in all 24 markets where it previously operated."

24. During the accompanying conference call with investors later same day, Defendant Barton, Zillow's Chief Executive Officer and co-founder, touted the strength of the Zillow Offers program—even in the face of the COVID-19 pandemic:

> In Zillow Offers, we used enhanced selling strategies and differentiated data signals to manage our inventory. The fact that we were able to make it gracefully through the uncertainty of the past 5 months, continuing to sell inventory is a testament to the team's agility. Our combination of machines and humans is getting smarter and more experienced.

25. In response to an analyst's questions regarding a post-COVID-19 Zillow Offers program, Barton further explained:

> So starting with your question, Robert, about how aggressive we want to be with Zillow Offers. Well, we've now, as of today, actually opened up all 24 of the markets that we had open before COVID hit. And we -- so you can tell, by the way, we've opened markets and how aggressively we've reopened markets, you can tell we feel good about it. And the supposition is that this price certainty, this time certainty and convenience and the kind of safety associated with -- if you're a seller, not having to have a bunch of people go through your house, and if you're a buyer, letting yourself into a home with a Zillow app with nobody there, those both feel like good things in the midst of a health crisis, and we're seeing that play out.
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> So we feel that in a way, the pandemic highlights some of the benefits of working with Zillow Offers. It is -- the reopening is early days. So we're watching. And -- carefully, but we're feeling good about kind of the post-COVID Zillow Offers.

26. On November 5, 2020, Zillow announced its financial results for third quarter 2020. During the Company's accompanying conference call that day, Defendant Barton again touted the growing momentum behind Zillow Offers:

> In our Zillow Offers business, we are ramping back up across the country after pausing acquisitions back in March, and it will take time to rebuild our inventory levels. We added Jacksonville, Florida to our list of 25 markets where people can get a fair, hassle-free cash offer for their home. This option for home sellers to be able to move without showings, without open houses on their own time line is

> proving its appeal. As we build back, we are focused on improving our cost structure on every line item, while simultaneously delivering more ease and convenience for our customers.

27. Defendant Parker, the Company's Chief Financial Officer, provided additional color regarding the rebound of Zillow Offers following the COVID-19 pandemic at the Company's November 16, 2020 appearance at the Needham Virtual Internet Services Conference. Specifically, Parker noted:

> As we come out of the pause, one of the positives that we have is that we were able to take a lot of those learnings, and again, I mentioned we kind of started up again a little more cautiously out of safety and just uncertainty.
>
> But we are smarter about what to buy, how long it's going to take us to renovate it. We continue to get better. And so all of those things actually spread across the markets relatively quickly. But there are certain markets that are hotter than others, and we continue to work those. I wouldn't say there's one formula that says after 18 months, one market is profitable. There's still a lot to learn and a lot of tech has developed. And that learning helps in us getting smarter, and we can -- typically, we can roll that into other markets quickly, and we can ramp them up a little faster than we did initially, but we've still got a lot to learn.

28. In response to questions at Zillow's November 18, 2020 appearance at RBC Global Technology, Internet, Media and Telecommunications Conference (Virtual), Defendant Barton reiterated his confidence in the profitability prospects for Zillow Offers, explaining:

> But to answer your question directly, I'm confident now that we've seen enough and we've achieved the scale and we've learned enough that for Zillow, we can make the unit economics work. I am convinced of that, and I think we will get better from here.

29. On February 10, 2021, Zillow published its fourth quarter and full year 2020 financial results. Among other things, the Company reported 2020 revenue from Zillow Offers of more than $1.7 billion—a 25% increase, despite the COVID-19 pandemic, over 2019 revenue of nearly $1.4 billion. Zillow Offers accounted for 51% of the Company's total 2020 revenues.

30. In explaining these results during the Company's conference call with investors that day, Defendant Barton explained that "[o]ur burgeoning sell side business, Zillow Offers, proved durable through some bad weather" and that while "[w]e paused home buying to manage risk during the early days of the pandemic" the Company "exited 2020 with our quarterly acquisitions pace returning to Q4 2019 levels."

31. Defendant Parker similarly touted Zillow Offers's strong performance, highlighting that:

> During Q4, Zillow Offers benefited from operational improvements, stronger-than-expected home price appreciation across the country, a strong customer value proposition and faster sales velocity.
>
> Home segment revenue of $304 million exceeded the high end of our outlook with home purchases returning to Q4 2019 levels. Our Q4 Zillow Offers unit economics of 668 basis points before interest was above the plus or minus 200 basis point guardrail we set for ourselves while working to scale the business. The outsized unit economic results were impacted by the stronger and faster housing market recovery than we initially assumed in addition to the expected benefit of a predominantly high mix of recently acquired homes following the first half air gap.
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> Q4 unit economics also showed meaningful operational progress in improving our cost per home sold. Combined, we saw all 3 operational cost line items improved nearly 250 basis points compared to Q3. We are continuing to target our underwriting goal of plus or minus 200 basis points going forward.

32. As the Country continued to work through the COVID-19 pandemic, Defendants continued to emphasize their confidence in the long-term growth and sustainability of Zillow Offers. For example, on May 4, 2021, Zillow reported first quarter 2021 financial results, which Defendant Barton noted "exceeded expectations and showed our momentum toward delivering a seamless, end-to-end real estate transaction."

33. During the Company's quarterly conference call, Defendant Barton explained that Zillow was "now beginning to register the benefits of the investments we have made across our

product innovations" and that "[t]his increased profit generation after such a meaningful investment period gives us confidence that the bets we are making across the business are accretive, and we are allocating our time, our people and our capital appropriately for the long term."

34. Defendant Parker again highlighted strong growth within the business segment, stating:

> Growth in Zillow Offers continue to reaccelerate in Q1. We reported Homes segment revenue of $704 million, which exceeded the high end of our outlook with 1,965 home sales. Resale velocity was above our expectations. In Q1, we sold 128% of the beginning inventory of 1,531 homes, which contributed to inventory declining at the end of Q1 to 1,422 homes. Purchases increased to 1,856 homes in the quarter from 1,789 homes purchased in Q4, but not quite at the pace we planned as we continue to work on refining our models to catch up with the rapid acceleration in home price appreciation.
>
> During Q1, we continued to focus on unit costs, automation, adding capacity and sharpening pricing models to improve offer strength as we continue to scale. Our Q1 Zillow Offers unit economics of 549 basis points return before interest expense was above the plus or minus 200 basis point guardrails we've set for ourselves while working to scale the business. The outsized unit economic results were impacted by the ongoing strong housing market, which is temporal in nature. We made progress during the quarter on improving offer strength and sharpened pricing that tightened our unit economics by approximately 120 basis points from that of Q4. The durable operational improvements in overall cost per home contributed 280 basis points improvement from Q1 2020.

35. In touting the Company's commitment and confidence in Zillow Offers, Defendant Barton further explained:

> But on [Zillow Offers], in particular, Ron, we're leaning in, like -- we're leaning in. We're expanding in the 25 markets. We're heavily staffing, as I think we made an announcement, maybe Allen just talked about it, too. We are planning as a company. I'm hiring a net 2,000 people in 2021, and a lot of that will be for Zillow Offers. And we're making other investments in [Zillow Offers] as well.

> So we are comfortable with that increased investment because of what we're seeing top of funnel because what we know about the consumer value proposition. And also, we're leaning in because most consumers don't even know what Zillow Offers is yet. They don't even know -- we've got to take Zillow 2.0 out of the kind of quarterly conference call realm and into the consumer awareness realm. And so we've got a lot of work to do there, and we're basis points penetrated in the business overall. So long answer, but we're feeling -- we're leaning in and feeling good.

36. Defendants' positive assurances continued on August 5, 2021, when the Company reported its second quarter 2021 financial results, including Zillow Offers revenue of $772 million (accounting for nearly 60% of total Company revenue). In the Company's earnings release, Defendant Barton specifically highlighted that the Company's "iBuying business, Zillow Offers, continues to accelerate as we offer more customers a fast, fair, flexible and convenient way to move" and "is proving attractive to sellers even in this sizzling-hot seller's market."

37. During the accompanying conference call with investors, Defendant Barton further explained:

> On the sell side, Zillow offers continued to accelerate in Q2 with a record 3,805 homes purchased. We sold 2,086 homes, generating a record $777 million in revenue in our Home segment, surpassing our internal expectations for both revenue and EBITDA. Importantly, the Zillow Offers value proposition of a fast, fair, flexible and convenient close has proved more than durable even in the sizzling hot sellers' market. It's a nod to just have dreadful and dreaded the prospect of selling, buying and moving is to people. Likely, this is not a surprise to any of you. In our surveys of homeowners who want and need to move, when we present the Zillow Offers concept, the largest objection is there must be a catch. I'm pretty happy to market to that objection.
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> As we discussed on our last call, we entered Q2 with strong customer interest in [Zillow Offers], which accelerated throughout the quarter and into Q3. Allen will get into more details. But as we said on our Q1 call, we saw significant customer demand at the beginning of Q2 that we expected would drive revenue growth on a lagged basis in Q3, which is now leading to our strong Q3 outlook. And we continued to see strong growth in customer demand as we entered Q3 that we expect will favorably impact revenue in future

> quarters. With that in mind, we are focused on making progress automating key workflows in support of building a large-scale operation.

38. Defendant Parker similarly highlighted the strength and continued improvement of Zillow Offers, including the following explanation:

> Growth in Zillow Offers continued to accelerate in Q2 and exceeded our expectations, with 2,086 homes sold, driving $777 million in Home segment revenue. We made progress this quarter in improving our pricing models, including launching the neural Zestimate, which sharpened our offer strength. The neural Zestimate puts more weight on attributes of homes and allows more granularity at the asset level, placing less emphasis on repeat home sales price comparisons. In addition, we continue to make progress building automation at the top of the funnel when providing offers to customers. These improvements drove rapid gains in conversion rates in Q2 when compared to Q1, resulting in record purchases, more than catching up to our pre-pandemic pace. We purchased 3,805 homes during the second quarter, more than double what we purchased in Q1.

39. Parker also provided positive commentary for third quarter 2021, stating:

> In Q3, we expect our Homes segment revenue to increase sequentially from Q2 to $1.45 billion at the midpoint of our outlook range. This step-up in pace demonstrates our confidence in our ability to scale, resulting from the progress we have made in strengthening our pricing models and automating the top of the funnel. Evidence of our accelerated pace can be seen in our homes under contract, which was $1.2 billion at the end of Q2, up 126% from $511 million at the end of Q1. I will reiterate that our goal here is to become a true market maker.

40. The statements in ¶¶ 23–39 are materially false and misleading and/or failed to disclose that: (1) the Company knew that it did not have the ability to properly price homes for its Zillow Offers business; (2) this inability, in addition to labor and supply shortages, resulted in a backlog of inventory in the Zillow Offers business; (3) as a result of the foregoing, the Company was reasonably likely to wind-down its Zillow Offers business, which would have a material adverse impact of the Company's financial results; and (4) as a result of the foregoing, Defendants

positive Class Period statements about the Company's business, operations, and prospects were materially misleading and/or lacked a reasonable basis.

C. The Truth Begins to Emerge

41. Investors learned the truth about Zillow Offers through a series of partial disclosures beginning on October 4, 2021, when analysts from RBC Capital Markets lowered their price target for Zillow, warning that "[a]n analysis of Zillow-owned homes for sale in Phoenix" suggests that Zillow Offers would likely miss quarterly expectations. Specifically, RBC Capital Markets noted that home price reductions for Zillow's Phoenix-area listings suggest that "the company likely still has meaningful inventory to work through into Q4 that was bought at too high a price and thus we would expect Q3 results and Q4 guidance to reflect this."

42. On this news, the price of Zillow common stock (ZG) declined $5.72 per share, or more than 6%, from a close of $91.40 per share on October 1, 2021, to close at $85.68 per share on October 4, 2021. Similarly, the price of Zillow capital stock (Z) declined $4.98 per share, or approximately 5.5%, from a close of $90.36 per share on October 1, 2021, to close at $85.38 per share on October 4, 2021.

43. Several weeks later, on October 18, 2021, Zillow announced that, "[d]ue to a backlog in renovations and operational capacity constraints," Zillow Offers "will not sign any new, additional contracts to buy homes through the end of the year." According to Defendant Wacksman, the Company's Chief Operating Officer, Zillow is "operating within a labor- and supply-constrained economy inside a competitive real estate market, especially in the construction, renovation and closing spaces," and is "not been exempt from these market and capacity issues."

44. On this news, the price of Zillow common stock (ZG) declined $8.84 per share, or more than 9%, from a close of $94.30 per share on October 15, 2021, to close at $85.46 per share on October 18, 2021. Similarly, the price of Zillow capital stock (Z) declined $8.97 per share, or more than 9%, from a close of $94.97 per share on October 15, 2021, to close at $86.00 per share on October 18, 2021.

45. Then, on November 1, 2021, media outlets reported on a detailed analysis from KeyBanc Capital Markets that concluded "Zillow may have leaned into home acquisition at the wrong time" given that most of the homes Zillow Offers inventory were now worth less than what the Company paid for them. Specifically, KeyBanc Capital Markets found that: (1) 66% of Zillow's homes are currently listed below the purchase price (at an average discount of 4.5% versus the purchase price); and (2) 94.3% of homes in San Diego, California, 93.4% of homes in Phoenix, Arizona, and 92.6% of homes in Mesa, Arizona, were listed below Zillow's purchase price.

46. Later that day, *Bloomberg* reported that Zillow "is looking to sell about 7,000 homes as it seeks to recover from a fumble in its high-tech home-flipping business." According to sources interviewed by *Bloomberg*, "[t]he company is seeking roughly $2.8 billion for the houses, which are being pitched to institutional investors . . . . as Zillow seeks to recover from an operational stumble that saw it buy too many houses, with many now being listed for less than it paid."

47. In response to this news, the price of Zillow common stock (ZG) declined $20.24 per share over two trading days, or more than 19%, from a close of $105.72 per share on October 29, 2021, to close at $85.48 per share on November 2, 2021. Similarly, the price of Zillow capital stock (Z) declined $16.43 per share, or nearly 16%, from a close of $103.63 per share on October 29, 2021, to close at $87.20 per share on November 2, 2021.

48. After the market close on November 2, 2021, Zillow released its third quarter 2021 financial results and announced that it was "wind[ing] down" Zillow Offers as the program generated quarterly revenue of $1.17 billion (well short of the Company's public expectations of $1.45 billion). Zillow further revealed that it would need to take write-downs of approximately $569 million given "the unpredictability in forecasting home prices far exceeds what we anticipated and continuing to scale Zillow Offers would result in too much earnings and balance-sheet volatility." Additionally, the Company acknowledged that it would be reducing its workforce by 25%.

49. During the Company's quarterly conference call that day, Defendant Barton provided a lengthy explanation of the myriad problems encountered by Zillow Offers:

> Yet in our short tenure operating Zillow Offers, we've experienced a series of extraordinary events: a global pandemic, a temporary freezing of the housing market and then a supply-demand imbalance that led to a rise in home prices at a rate that was without precedent. We have been unable to accurately forecast future home prices at different times in both directions by much more than we modeled as possible, with Zillow Offers unit economics on a quarterly basis swinging from plus 576 basis points in Q2 to an expected minus 500 to minus 700 basis points in Q4.
>
> Put simply, our observed error rate has been far more volatile than we ever expected possible and makes us look far more like a leveraged housing trader than the market maker we set out to be. We could blame this outsized volatility on exogenous black swan events, tweak our models based on what we've learned and press on. But based on our experience to date, it would be naive to assume unpredictable price forecasting and disruption events will not happen in the future.
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> Because of the price forecasting volatility, we have also had to reconsider what the business would look like at a larger scale. We have offered sellers a fair market price from the start, but we've also been clear that the business only becomes consistently profitable at scale. With the price forecasting volatility we have observed and now must expect in the future, we have determined that the scale would require too much equity capital, create too much volatility in our earnings and balance sheet and ultimately result in a far lower return on equity than we imagined.
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> We have also experienced significant capacity and demand planning challenges, exacerbated by an admittedly difficult labor and supply chain environment. The combination of these factors has caused a meaningful backup in our processing of homes in the Zillow pipeline, which we announced 2 weeks ago. We judged future significant volume volatility to be a tough impediment to ramp a scaled operation, and any interruptions in the supply chain like we recently experienced will result in increased holding times, further increasing our exposure to volatility and lowering our return on equity.

> A final factor in this wind-down decision is that to date, we have been able to serve only a limited number of customers. We've been able to convert only about 10% of the serious sellers who ask for a Zillow Offer, and we have tended to disappoint the roughly 90% who didn't sell to us. Given our hard-earned position at the top of the seller funnel with 220 million-plus average monthly unique users and the popularity of this estimate, there are better, broader, less risky, more brand-aligned ways of enabling all of our customers who want to move.

50. On this news, the price of Zillow common stock (ZG) plummeted an additional $19.62 per share, or approximately 23%, to close at $65.86 per share on November 3, 2021. Similarly, the price of Zillow capital stock (Z) fell $21.73 per share, or approximately 25%, to close at $65.47 per share on November 3, 2021.

V. PLAINTIFF'S CLASS ACTION ALLEGATIONS

51. Plaintiff brings this class action under Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons or entities that purchased Company securities during the Class Period (the "Class"). Excluded from the Class are Defendants, their agents, directors and officers of the Company, and their families and affiliates.

52. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court.

53. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

a. Whether Defendants violated the Exchange Act;

b. Whether Defendants omitted and/or misrepresented material facts;

c. Whether Defendants' statements omitted material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;

d. Whether Defendants knew or recklessly disregarded that their statements and/or omissions were false and/or misleading;

e. Whether the price of Company securities were artificially inflated; and

f. The extent of damage sustained by members of the Class and the appropriate measure of damages.

54. Plaintiff's claims are typical of those of the Class because Plaintiff and the Class sustained damages from Defendants' wrongful conduct.

55. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests that conflict with those of the Class.

56. A class action is superior to other available methods for the fair and efficient adjudication of this controversy. Joinder of all Class members is impracticable.

VI. APPLICABILITY OF PRESUMPTION OF RELIANCE: FRAUD-ON-THE-MARKET DOCTRINE

57. Plaintiff will rely upon the presumption of reliance establish by the fraud-on-the-market doctrine in that, among other things:

a. Defendants made public misrepresentations or failed to disclose material facts during the Class Period;

b. The omissions and misrepresentations were material;

c. The Company's securities traded in an efficient market;

d. The misrepresentations alleged would tend to induce a reasonable investor to misjudge the value of the Company's securities; and

e. Plaintiff and the Class purchased Company securities between the time Defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed, without knowledge of the misrepresented or omitted facts.

58. At all relevant times, the market for Company securities was efficient because: (1) as a regulated issuer, the Company filed periodic public reports with the SEC; and (2) the Company regularly communicated with public investors using established market communication mechanisms, including through regular disseminations of press releases on the major news wire services and through other wide-ranging public disclosures, such as communications with the financial press, securities analysts, and other similar reporting services.

VII. NO SAFE HARBOR

59. Defendants' "Safe Harbor" warnings accompanying any forward-looking statements issued during the Class Period were ineffective to shield those statements from liability.

60. Defendants are also liable for any false and/or misleading forward-looking statements pleaded because, at the time each forward-looking statement was made, the speaker knew the forward-looking statement was false and/or misleading and the forward-looking statement was authorized and/or approved by an executive officer of the Company who knew that the forward-looking statement was false. None of the historic or present-tense statements made by Defendants were assumptions underlying or relating to any plan, projection, or statement of future economic performance, as they were not stated to be such assumptions underlying or relating to any projection or statement of future economic performance when made, nor were any of the projections or forecasts made by Defendants expressly related to or stated to be dependent on those historic or present-tense statements when made.

VIII. LOSS CAUSATION/ECONOMIC LOSS

61. Defendants' wrongful conduct directly and proximately caused the economic loss suffered by Plaintiff and the Class. The price of Company securities significantly declined when the misrepresentations made to the market, and/or the information alleged herein to have been concealed from the market, and/or the effects thereof, were revealed, causing investors' losses. As a result of their purchases of Company securities during the Class Period, Plaintiff and the Class suffered economic loss, *i.e.* damages, under the federal securities laws.

IX. SCIENTER ALLEGATIONS

62. During the Class Period, Defendants had both the motive and opportunity to commit fraud. They also had actual knowledge of the misleading nature of the statements they made or acted in reckless disregard of the true information known to them at the time. In so doing, Defendants participated in a scheme to defraud and committed acts, practices, and participated in a course of business that operated as a fraud or deceit on purchasers of Company securities during the Class Period.

X. CLAIMS AGAINST DEFENDANTS

COUNT I

For Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder against All Defendants

63. Plaintiff incorporates by reference the allegations in the preceding paragraphs.

64. During the Class Period, Defendants carried out a plan, scheme, and course of conduct that was intended to and, throughout the Class Period, did: (1) deceive the investing public, including Plaintiff and the Class; and (2) cause Plaintiff and the Class to purchase Company securities at artificially inflated prices. In furtherance of this unlawful scheme, plan, and course of conduct, the Defendants, and each of them, took the actions set forth herein.

65. Defendants: (1) employed devices, schemes, and artifices to defraud; (2) made untrue statements of material fact and/or omitted material facts necessary to make the statements not misleading; and (3) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices thereof in violation of Section 10(b) of the Exchange Act and Rule 10b-5.

66. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and the Class suffered damages in connection with their respective purchases of the Company's securities during the Class Period.

COUNT II

For Violations of Section 20(a) of the Exchange Act against the Individual Defendants

67. Plaintiff incorporates by reference the allegations in the preceding paragraphs.

68. The Individual Defendants acted as controlling persons of the Company within the meaning of Section 20(a) of the Exchange Act. By virtue of their high-level positions, and their ownership and contractual rights, participation in and/or awareness of the Company's operations, and/or intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control—and did influence and control, directly or indirectly—the decision-making of the Company, including the content and dissemination of the various false and/or misleading statements. The Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings, and other statements alleged by Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

69. In particular, each of the Individual Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, are presumed to have had the power to control or influence the particular accounting practices giving rise to the securities violations as alleged herein, and exercised the same.

70. As described above, the Company and the Individual Defendants each violated Section 10(b) of the Exchange Act and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their positions as controlling persons, the Individual Defendants are liable under Section 20(a) of the Exchange Act. As a direct and proximate result of this wrongful conduct, Plaintiff and other members of the Class suffered damages in connection with their purchases of Company securities during the Class Period.

71. **WHEREFORE**, Plaintiff prays for relief and judgment, as follows:

a. Determining that this action is a proper class action under Rule 23 of the Federal Rules of Civil Procedure;

b. Awarding compensatory damages and equitable relief in favor of Plaintiff and other members of the Class against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

c. Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

d. Awarding such other and further relief as the Court may deem just and proper.

XI. JURY DEMAND

72. Plaintiff hereby demands a trial by jury.

DATED: January 6, 2022