

ACCOUNTING 2301: FINANCIAL AND MANAGERIAL ACCOUNTING

REDFIN VERSUS ZILLOW GROUP

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¹ Accounting Photo [Digital Image]. (2019). Retrieved from www.cpacanada.ca

Table of Contents

Table of Contents	2
Introduction	5
Real Estate Industry	5
Redfin	5
Zillow Group	6
Timeline	6
Redfin	6
Zillow Group	7
Competitor Analysis	7
Key Drivers	8
Industry	8
Redfin	8
Zillow Group	9
Challenges	10
Industry	10
Redfin	10
Zillow Group	11
Street Position and Expectation	12
Redfin	12
Street Position	12
Analyst Recommendation	12
Street Expectation	13
Zillow Group	14
Street Position	14
Analyst Recommendation	15
Street Expectation	16
Business Risk	17
Redfin's Risk Factors	17
Zillow's Risk Factors	17
Business Segmentation	19
Redfin	19
Business Segment	19
Revenue Overview	19
Zillow	20
Business Segment	20

Revenue Overview	20
Executive Compensation Structure	22
Redfin's Executive Summary Compensation	22
Zillow's Executive Summary Compensation	23
Summary Earnings Call	24
Redfin's Earnings Call	24
Zillow's Earnings Call	25
Horizontal and Vertical Analysis	26
Horizontal Analysis	26
Horizontal Analysis of the Balance Sheet	26
Horizontal Analysis of the Income Statement	27
Vertical Analysis	27
Vertical Analysis of the Balance Sheet	28
Vertical Analysis of the Income Statement	29
Key Ratios	30
Liquidity	30
Current Ratio	30
Quick Ratio	30
Cash Flow Ratio	31
Profitability	31
Return on Equity	32
Return on Assets	32
Earnings Per Share	33
Operating Profit Margin	33
Other Key Ratios in 2018	34
Debt-to-Equity Ratio	34
Price Per Earnings Ratio	34
Position as an Investor	36
Rate earned on stockholders equity	36
Ratio of Net Sales to Assets	36
Earnings per Share	37
Price to Earnings Ratio	37
Profit Margin	38
Revenue Growth	38
Return on Assets	39
Position as a Creditor	40

Ratio of Liabilities to Stockholders Equity	40
Ratio of Fixed Assets to Long Term Liabilities	40
Current Ratio	41
Fixed Charge Coverage Ratio	42
Operating Cash Flow Ratio	42
Conclusion	44

Introduction

Real Estate Industry

Real estate is real property that consists of land and improvements, which include buildings, fixtures, and utility systems. Real estate industry also comprises of brokers and agents, that sell, buy, or rent real estate for others. The real estate industry is a big business generating billions of dollars in revenue annually. In 2018, there were approximately 210,000 companies operating in the residential brokerage and management field, and generated \$200 billion in revenue; there were 35,000 companies operating in the commercial brokerage and management field, and generated \$35 billion in revenue². The real estate industry consists of two primary fields:

- **Real Estate Brokerage:** Real estate brokers bring about collaboration between buyers and sellers of property, assist in price negotiations.
- **Real Estate Leasing agents and Management:** Leasing agents work with property owners to handle the complexity involved with finding, vetting and signing tenants for their properties. Management companies ensure efficiency in tasks such as utility payments, staff hiring, and maintenance in buildings and other properties.

Redfin

Redfin (NASDAQ ticker: RDFN) is a residential real estate brokerage, headquartered in Seattle, WA. Redfin represents customers in over 85 markets throughout the United States and Canada. Redfin is an online real-estate marketplace that provides services to assist individuals buy/sell their property, settlement services, originate and sell mortgages. Redfin's portfolio consists of the following Redfin Mortgage, Title Forward, and Redfin Now.

² <https://www.franchisehelp.com/industry-reports/real-estate-industry-analysis-2018-cost-trends/>

Redfin's mission is to “Redefine real estate in the consumer’s favor”³.

Zillow Group

Zillow Group Inc., or Zillow (NASDAQ ticker: Z or ZG) is an online real estate database company, headquartered in Seattle, WA. Zillow Group brands focus on all stages of home lifecycle: renting, buying, selling and home improvement. The Zillow Group portfolio of consumer brands includes Zillow, Trulia, Mortgage Lenders of America, StreetEasy, HotPads, Naked Apartments, RealEstate.com and Out East. 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.

Zillow Group’s Mission is to “Build the largest, most trusted and vibrant home-related marketplace in the world”⁴.

Timeline

Redfin

Redfin was founded in 2006 and has had several key events over the years. Fig. 1 highlights some of the key events. Refer Exhibit 1 for detailed timeline for Redfin.



Figure 1: Timeline of Key Events - Redfin⁵

³ <http://investors.redfin.com/static-files/bec6381c-33ab-4923-960e-acbdbd14425f>

⁴ [https://s1.q4cdn.com/623891520/files/doc_financials/annual/2018/2018-Annual-Report-\(final\).pdf](https://s1.q4cdn.com/623891520/files/doc_financials/annual/2018/2018-Annual-Report-(final).pdf)

⁵ <http://press.redfin.com/company-timeline>

Zillow Group

Zillow was founded in 2005 and has had several key events over the years. Fig 2. highlights some of the key events. Refer Exhibit 2 for detailed timeline for Redfin

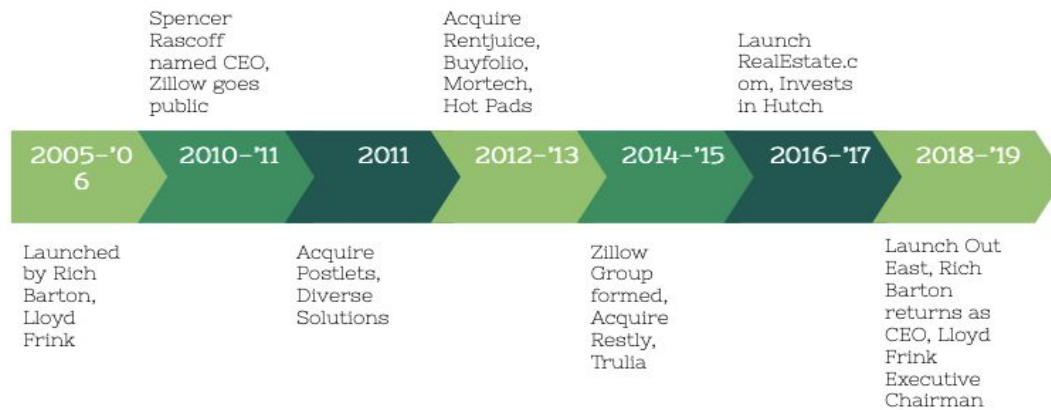


Figure 2: Timeline of Key Events - Zillow Group⁶

Competitor Analysis

Some of the top companies in the real estate services industry are Zillow Group, Redfin, Sotheby's International Realty, Compass, and Zumper etc. The table⁷ below shows the companies based on their revenues:

Company	Revenue
Zillow Group	\$1.3 Billion
Redfin	\$486.9 Million
Sotheby's International Realty	\$322.1 Million
Compass	\$277.5 Million
Zumper	\$55 Million

⁶ <https://www.zillowgroup.com/timeline/>

⁷ <https://www.owler.com/company/zillowgroup>

Key Drivers

Industry

- Purchase and Sales: 34% of movers in 2018 or 10.9 million people were owners according to US Census Bureau
- Home Financing: U.S Residential Mortgage providers expected to spend ~\$7.1B in marketing their services and products to mortgage borrowers according to Borrell Associates
- Home Rentals: According to U.S Census Bureau, there are 106.5 million residing in rental units
- Preeminent role of technology: Consumers increasingly turning to mobile devices to access real estate information and service via the internet.

Redfin

Redfin has had stellar revenue growth YoY from 2014 to 2018 (approximately 38% per year) and its U.S Market share by values of home sold has increased consistently from 2014 to 2018. Some of the key drivers for this include (but are not limited to) the following:

- **Revenue Diversification⁸:** Redfin's Revenue from geographical areas outside its top 10 markets has increased by 10% in approximately 2 years (22% in Q2 2015 → 32% in Q1 2017)
- Stable economy which boosts the number of homebuyers
- **Ease of technology:** Redfin's convenience and efficiency of technology is an indicator of its high net promoter score and customer satisfaction rate⁹ of

⁸ <https://www.goodwatercap.com/thesis/understanding-redfin>

⁹ <http://investors.redfin.com/static-files/7fc3bd99-0d2f-44fd-9f4c-d726aa509396>

49%. Monthly average visitors shows consistent growth increasing 44% Y-o-Y in Q1'17.

- **Increased ownership from stakeholders:** Redfin agents earn bonuses based on customer satisfaction not commission.

Zillow Group

In an highly competitive industry such as the real estate industry, Zillow Group is able to maintain its strong revenue growth and leading position among other companies through some competitive advantages¹⁰ such as:

- **Branching out into different market segments:** In 2017, Zillow group launched 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.
- **Acquisitions:** Zillow leveraged its acquisition of Mortgage lenders of America to efficiently attract motivated users to the marketplace and prioritize the consumer's experience.
- **Technology and Product Innovations:** Zillow offers a comprehensive suite of marketing and technology solutions to help real estate, rental and mortgage professionals grow their businesses and personal brands.
- **End to end service:** Zillow offers seamless end-to-end technology that meets the ever-changing needs of today's consumers, with a goal of earning consumers' preference for Zillow Group products and services across all stages of the home lifecycle.
- **Powerful Brand and Scale:** Zillow has established a powerful brand identity that includes a portfolio of the largest and most vibrant brands. In addition, Zillow has built a large user community. The majority of traffic comes direct,

¹⁰ [https://s1.q4cdn.com/623891520/files/doc_financials/annual/2018/2018-Annual-Report-\(final\).pdf](https://s1.q4cdn.com/623891520/files/doc_financials/annual/2018/2018-Annual-Report-(final).pdf)

not dependent on search engines, with demonstrated consumer intent to visit Zillow Group's brands.

- **Access to Data:** Zillow's database of homes provides a foundation on which Zillow can build new consumer and professional marketplaces in other home-related categories. Zillow's unmatched audience size and traffic pattern data also provides them with a competitive advantage.

Challenges

Industry

Though the real estate industry presents several opportunities, there are some underlying risks in the industry. These risks include, (but are not limited to) the following¹¹:

- Highly fragmented, local and complex market
- Macroeconomic factors such as slow economic growth or recessionary conditions
- Lack of affordably priced homes, which may result from home prices growing faster than wages
- Increased unemployment rates or stagnant or declining wages
- Low home inventory levels, which may result from zoning regulations and higher construction costs
- Changes in federal and state legislative policies such as Tax Cuts and Job Acts which may affect U.S residential real estate industry

Redfin

The residential brokerage industry is highly fragmented, with numerous brokerages and active licensed agents, and is evolving rapidly in response to changing technology, changing customer preferences, and new offerings. Some of the

¹¹ <http://investors.redfin.com/static-files/bec6381c-33ab-4923-960e-acbdbd14425f>

challenges¹² that Redfin has to deal with include (but are not limited to) the following:

- Access to timely, accurate data about homes for sale affect Redfin's business
- Consumer awareness of Redfin's services and effectiveness of marketing
- Speed and quality of services offered, including agents responsiveness and local knowledge
- Adapting to changes in technology by being at the forefront of technology innovation
- Ability to hire and retain agents who deliver the best customer service and contribute to company growth
- Redfin Mortgage competes with numerous national and local multi-product banks as well as focused mortgage originators

Zillow Group

The real estate industry is a highly competitive industry, and is evolving in response to advancements in technology, changing customer needs, and new offerings.

Some of the challenges¹³ faced by Zillow Group in order to retain its stellar revenue numbers, include (but are not limited to) the following:

- Ability to attract consumers and enhance their engagement with Zillow products and services in a cost-effective manner
- Adapt to changes in technology by providing industry-leading products and services to advertisers and consumers
- Zillow products and services are affected by a continually expanding and evolving range of local, state, federal, and international laws and regulations.
- Ability to increase and retain consumers by providing tools to promote engagement between real estate market participants, and enhance their user experience

¹² <http://investors.redfin.com/static-files/bec6381c-33ab-4923-960e-acbdbd14425f>

¹³ [https://s1.q4cdn.com/623891520/files/doc_financials/annual/2018/2018-Annual-Report-\(final\).pdf](https://s1.q4cdn.com/623891520/files/doc_financials/annual/2018/2018-Annual-Report-(final).pdf)

Street Position and Expectation

Redfin

Street Position

Redfin's stock is currently priced at \$15.76 (as on 05/30/2019). 15 Wall Street analysts have issued ratings and price targets for Redfin in the last 12 months. The street expectation on Redfin stock is an average twelve-month price target of approximately \$21.3636, suggesting that the stock has a possible upside of 35.56%.

	Today	30 Days Ago	90 Days Ago	180 Days Ago
Consensus Rating:	Hold	Hold	Hold	Hold
Consensus Rating Score:	2.20	2.20	2.15	2.27
Ratings Breakdown:	1 Sell Rating(s) 10 Hold Rating(s) 4 Buy Rating(s) 0 Strong Buy Rating(s)	2 Sell Rating(s) 8 Hold Rating(s) 5 Buy Rating(s) 0 Strong Buy Rating(s)	2 Sell Rating(s) 7 Hold Rating(s) 4 Buy Rating(s) 0 Strong Buy Rating(s)	1 Sell Rating(s) 6 Hold Rating(s) 4 Buy Rating(s) 0 Strong Buy Rating(s)
Consensus Price Target:	\$21.3636	\$21.3864	\$19.9167	\$22.50
Price Target Upside:	35.56% upside	5.20% downside	1.09% upside	38.46% upside

Figure 3: Street Position of Redfin¹⁴

Analyst Recommendation

Based on the analysis of street position of Redfin, a number of analysts have issued a Hold rating. The below Figure 4 shows the various analyst recommendations for Redfin.

¹⁴ <https://www.marketbeat.com/stocks/NASDAQ/RDFN/price-target/>



Figure 4: Analyst Recommendation for Redfin¹⁵

Street Expectation

The below Figure 5 show the Earnings per share forecasts quarterly and annually. As we we can see, for the year 2019, the later quarters show an increase in EPS, meaning the stock worth is high and investors are willing to pay more.

¹⁵ <https://www.nasdaq.com/symbol/rdfn/recommendations>

Yearly Earnings Forecasts

Fiscal Year End	Consensus EPS* Forecast	High EPS* Forecast	Low EPS* Forecast	Number of Estimates	Over the Last 4 Weeks Number of Revisions	
					Up	Down
Dec 2019	-0.95	-0.69	-1.15	10	1	8
Dec 2020	-0.7	-0.5	-1.02	10	2	7
Dec 2021	-0.69	-0.43	-1	3	0	0
Dec 2022	-0.84	-0.84	-0.84	1	1	0

Quarterly Earnings Forecasts

Fiscal Quarter End	Consensus EPS* Forecast	High EPS* Forecast	Low EPS* Forecast	Number of Estimates	Over the Last 4 Weeks Number of Revisions	
					Up	Down
Jun 2019	-0.14	-0.13	-0.19	9	1	6
Sep 2019	0.03	0.09	-0.05	7	1	5
Dec 2019	-0.15	-0.1	-0.21	7	0	0
Mar 2020	-0.68	-0.65	-0.72	3	2	0
Jun 2020	-0.03	0.01	-0.08	3	0	0

Figure 5: Street Expectation of Redfin¹⁶

Zillow Group

Street Position

Zillow's stock is currently priced at \$43.08 (as on 05/30/2019). 17 Wall Street analysts have issued ratings and price targets for Zillow Group in the last 12 months. The street expectation on Redfin stock is an average twelve-month price target is \$43.00, suggesting that the stock has a possible upside of 1.58%.

¹⁶ <https://www.nasdaq.com/symbol/rdfn/earnings-forecast>

	Today	30 Days Ago	90 Days Ago	180 Days Ago
Consensus Rating:	Hold	Hold	Hold	Hold
Consensus Rating Score:	2.24	2.18	2.21	2.32
Ratings Breakdown:	3 Sell Rating(s) 7 Hold Rating(s) 7 Buy Rating(s) 0 Strong Buy Rating(s)	3 Sell Rating(s) 8 Hold Rating(s) 6 Buy Rating(s) 0 Strong Buy Rating(s)	2 Sell Rating(s) 11 Hold Rating(s) 6 Buy Rating(s) 0 Strong Buy Rating(s)	1 Sell Rating(s) 11 Hold Rating(s) 7 Buy Rating(s) 0 Strong Buy Rating(s)
Consensus Price Target:	\$43.00	\$45.0447	\$45.00	\$44.5625
Price Target Upside:	1.58% upside	35.64% upside	7.89% upside	28.13% upside

Figure 6: Street Expectation of Zillow Group¹⁷

Analyst Recommendation

Based on the analysis of street position of Zillow Group, a number of analysts have issued a Hold rating. The below Figure 7 shows the analyst recommendation for Zillow Group.

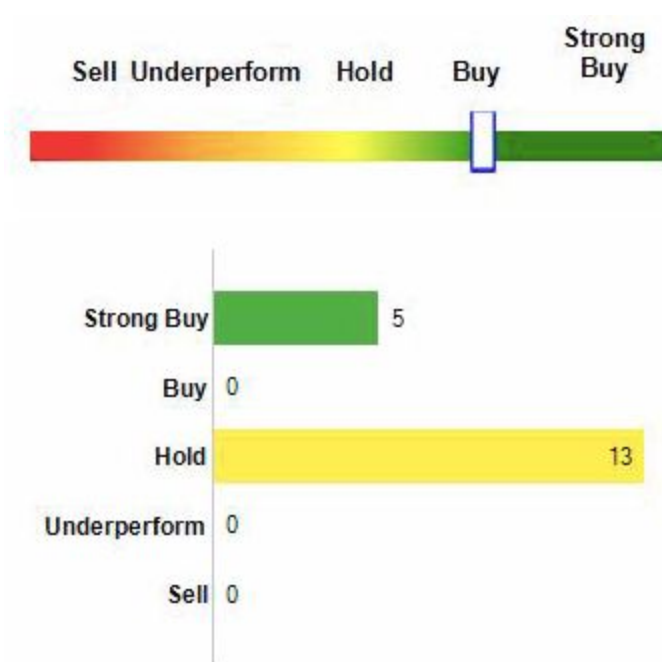


Figure 7: Analyst Recommendation of Zillow Group¹⁸

¹⁷ <https://www.marketbeat.com/stocks/NASDAQ/ZG/price-target/>

¹⁸ <https://www.nasdaq.com/symbol/zg/recommendations>

Street Expectation

The below Figure 8 show the Earnings per share forecasts quarterly and annually. As we we can see, for the year 2019, the later quarters show an increase in EPS, meaning the stock worth is high and investors are willing to pay more.

Yearly Earnings Forecasts

Fiscal Year End	Consensus EPS* Forecast	High EPS* Forecast	Low EPS* Forecast	Number of Estimates	Over the Last 4 Weeks Number of Revisions	
					Up	Down
Dec 2019	-1.64	-1.5	-1.84	4	1	3
Dec 2020	-1.97	-1.16	-3.06	4	1	3
Dec 2021	-1.08	-1.08	-1.08	1	0	0

Quarterly Earnings Forecasts

Fiscal Quarter End	Consensus EPS* Forecast	High EPS* Forecast	Low EPS* Forecast	Number of Estimates	Over the Last 4 Weeks Number of Revisions	
					Up	Down
Jun 2019	-0.43	-0.36	-0.49	4	1	3
Sep 2019	-0.39	-0.33	-0.44	4	0	4
Dec 2019	-0.48	-0.37	-0.62	4	0	0
Mar 2020	-0.3	-0.3	-0.3	1	0	0
Jun 2020	-0.42	-0.42	-0.42	1	0	0

Figure 8: Street Expectation of Zillow Group¹⁹

¹⁹ <https://www.nasdaq.com/symbol/zg/earnings-forecast>

Business Risk

Redfin's Risk Factors

- Managing the Business Model of Employing Lead Agents
 - Unlike competitors, Redfin's business model employs lead agents, who generally earn less on a per transaction basis than traditional agents. By employing an uncommon model in the industry, Redfin is challenged with attracting, retaining, effectively training and motivating the agents, who may not understand the compensation model
- Failure of Expanding the Business to Include Non-Brokerage Services
 - RedfinNow, a non-brokerage service that handles Redfin's direct home purchases and resale business, was transitioned from an experimental offering to a long-term business in July 2018. With limited experience operating service outside of brokerage business, Redfin has the risk of not being able to operate the non-brokerage business at a profit and may fail to attract customers
- Reliance on Business Data to Make Decisions and Drive Machine-Learning Tech
 - Regular analysis of business data is required to evaluate growth trends, measure performance, establish budgets, and make Strategic decisions. Errors or inaccuracies in such data can adversely affect the business decisions, financials and the customer experience.
- Compliance with the requirements governing the licensing of brokerage, mortgage and title businesses in the jurisdiction of operation

Zillow's Risk Factors

- Effective Management of relations and advertisements with real estate, rental and mortgage professionals

-
- Maintenance of Data Integrity as Volume of Published Data Increases
 - Homes represent significant investment, and many consumer decisions regarding homes are data-driven. Ability to attract and retain users and advertisers to the information products and services is dependent on accurate, complete residential real estate data. If data integrity suffers, Zillow may be subject to legal liability, loss of reputation and users
 - Disputes Regarding the Accuracy of Zestimates and Rent Zestimates
 - Zestimates are based on Zillow's automated valuation models that have been designed to address the unique attributes of homes. Disputes crop up from time to time, as property owners and others disagree with the accuracy or display of a zestimate. Such disputes can result in costly litigations that harm reputation and distract business
 - Entry into the the Mortgage Lending Business resulting in a failure
 - In Oct 2018, Zillow acquired Mortgage lenders of America L.L.C, a licensed mortgage lender. This entry into the mortgage lending business may cause a negative reaction within the mortgage industry, including a risk of harm to relationships with mortgage advertisers

Business Segmentation

Redfin

Business Segment

In Redfin's most recent 10Q filing, the firm listed five operating and two reportable segments, established as of January 1, 2019: Real Estate Services, Properties, and other, which includes Intercompany Eliminations, and consolidated.

Revenue Overview

Revenue is primarily generated from commissions and fees charged on each real estate services transaction completed by Redfin or its partner agents, and proceeds from the sales of homes. The firm's key revenue components are brokerage revenue, partner revenue, properties revenue, and other revenue.

	Three Months Ended Mar 31st, 2018	Three Months Ended Mar 31st, 2019
Real Estate Services	\$74,924	\$85,890
Properties	\$3,052	\$21,373
Other	\$1,917	\$3,047
Intercompany Eliminations		(\$169)
Consolidated	\$79,893	\$110,141

Redfin reported that during the three months that ended March 31, 2019, the firm generated a total revenue of \$220.3 million. As compared to the revenue generated in the three months that ended March 31, 2018, the firm saw an overall increase of 37.8%. This increase was a result of the addition of \$11 million or 15% increase in Real Estate Services revenue, addition of \$18 million in Properties revenue, \$1.13 million in Other revenue, \$30 million in Consolidated, and loss of \$169 million in Intercompany Eliminations.

Zillow

Business Segment

In Zillow Group's most recent 10Q filing, the firm listed three reporting and operating segments, established as of January 1, 2019: the Internet, Media & Technology ("IMT") segment, the Homes segment and the Mortgages segment. The IMT segment includes the financial results for the Premier Agent, Rentals and new construction marketplaces, as well as dotloop, display and other advertising and business software solutions. The Homes segment includes the financial results from buying and selling of homes directly through the Zillow Offers service. The Mortgages segment includes the financial results from advertising sold to mortgage lenders and other mortgage professionals through Zillow Home Loans and Mortech mortgage software solutions.

Revenue Overview

A large share of the IMT segment's revenue comes from Premier Agent. Premier Agent revenue is generated by the sale of advertising services, marketing and technology products and services, to help real estate agents and brokers grow and manage their businesses. Rentals revenue primarily includes rental applications product and advertising sold to property managers and other rental professionals on a cost per lead, cost per click, cost per lease or cost per listing generated basis. Additional revenue in IMT segment is generated through display advertising, as well as revenue from the sale of other advertising and business technology solutions for real estate professionals, including dotloop. Homes Segment is primarily centered around generating revenue through resale of homes on the open market through Zillow Offers service. While, Mortgages segment generates revenues from advertising sold to mortgage lenders and professionals on a cost per lead or subscription basis, including Quote services. Additional revenue in Mortgages

segment is made through mortgage originations in Zillow Home Loans and the related sale of mortgages on the secondary market, and from Mortech.

	Three Months Ended Mar 31st, 2018	Three Months Ended Mar 31st, 2019
IMT	\$280,856	\$298,272
Homes		\$128,472
Mortgages	\$19,023	\$27,360

Zillow reported that during the three months that ended March 31, 2019, the firm generated a total revenue of \$454.1 million. As compared to \$299.9 million generated in the three months that ended March 31, 2018, the firm saw an overall increase of 51%. This increase was the result of the addition of \$128.5 million in Homes revenue, an \$8.8 million or 30% increase in Rentals revenue, an \$8.3 million or 44% increase in Mortgages revenue, a \$4.7 million or 12% increase in Other revenue and a \$3.9 million or 2%, increase in Premier Agent revenue.

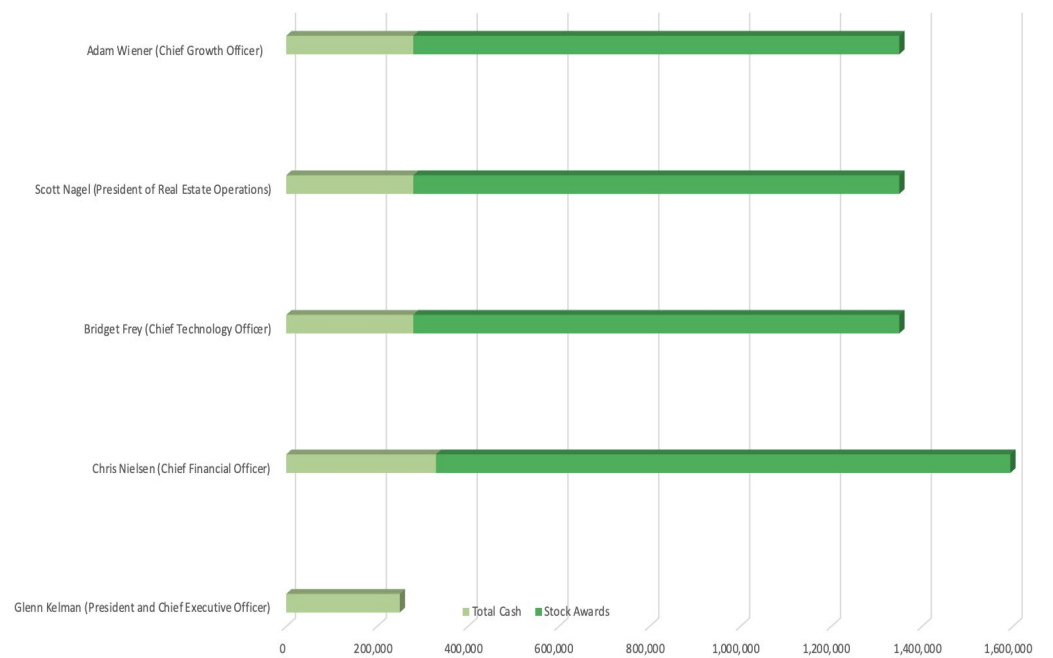
Executive Compensation Structure

Redfin's Executive Summary Compensation²⁰

	Total Cash	Stock Awards	Total Compensation
Glenn Kelman (President and Chief Executive Officer)	\$ 250,000	-	\$ 250,000
Chris Nielsen (Chief Financial Officer)	\$ 329,808	\$ 1,264,554	\$ 1,594,362
Bridget Frey (Chief Technology Officer)	\$ 279,808	\$ 1,070,018	1,349,826
Scott Nagel (President of Real Estate Operations)	\$ 279,808	\$ 1,070,018	1,349,826
Adam Wiener (Chief Growth Officer)	\$ 279,808	\$ 1,070,018	1,349,826

²⁰

<https://www.sec.gov/Archives/edgar/data/1382821/000138282119000055/a2019proxystatement.htm>



Zillow's Executive Summary Compensation²¹

	Total Cash	Equity	Other	Total Compensation
Spencer M. Rascoff (Chief Executive Officer)	\$ 777,791	\$ 11,642,013	\$ 444,018	\$ 12,863,822
Allen W. Parker (Chief Financial Officer)	\$ 807,273	\$ 9,889,368	\$ 11,150	\$ 10,707,791
Lloyd D. Frink (Vice Chairman and President)	\$ 533,340	\$ 3,819,839	\$ 18,285	\$ 4,371,464
Arik Y. Prawer (President, Homes Division)	\$ 923,225	\$ 6,011,117	\$ 35,125	\$ 6,969,467
Greg M. Schwartz (President, Media and Marketplaces)	\$ 1,189,076	\$ 3,819,839	\$ 11,250	\$ 5,020,165

²¹ <https://www.sec.gov/Archives/edgar/data/1617640/000119312519107741/d698733ddef14a.htm>

Kathleen Philips (<i>Secretary and Treasurer</i>)	\$ 512,748	\$ 3,819,860	\$ 21,250	\$ 4,353,858
Jennifer A. Rock Chief Accounting Officer	\$ 426,764	\$ 909,778	\$ 21,856	\$ 1,358,398



Summary Earnings Call

Redfin's Earnings Call²²

Based on the recent quarterly report,

1. Revenue of the company increased by 38% year-over-year to \$110.1 million in the first quarter of 2019
2. Gross profit is \$2.753 million, a decrease of 51% from \$5.69 million in the first quarter of 2018
3. Gross margin is 3%, it was 7% in the first quarter of 2018
4. Operating expenses are \$70.2 million, increased by 64% from \$42.9 million in 1Q of 2018, Operating expenses are 64% of the revenue, increased by 54% in the first quarter of 2018.

²² <https://www.sec.gov/Archives/edgar/data/1382821/000138282119000022/redfin10-k2018.htm>

-
5. Net loss is \$67.1 million, compared to net loss of \$36.4 million in the first quarter of 2018
 6. Net loss per share - basic and diluted is \$0.74, compared to \$0.44 in the first quarter of 2018
 7. Reached market share of 0.83% of U.S. home sales by value in first quarter of 2019
 8. Real estate services gross profit is \$5.1 million, decreased by 24% from \$6.8 million in the first quarter of 2018
 9. There is a negative cash flow from operating activities of \$ 47.1 million
 10. Total Liabilities of the company increased by \$ 89,738 increased by 52.3%

Zillow's Earnings Call²³

1. Total revenue increased by 51.4% in 1st Quarter of 2019 compared to the total revenue of 2018 1st Quarter
2. The gains is primarily due to the rapid growth of zillow offers
3. As part of new home buying service, zillow purchased 898 houses and sold 414 in first quarter of 2019, This represented growth of 80% and 200% respectively
4. Zillow generated \$128.5 million in revenue in its homes segment in the first quarter.
5. In Q1 of 2019 the company received more than 35,000 seller requests and the demand is growing. The average number of monthly unique users by end of 2018 are 157.2 million
6. Net loss per share - basic and diluted is increased to \$ 0.33 compared to the net loss per share of 0.10 in first quarter of 2018
7. Loss from operations is \$ 62.7 million, value increased by 451.9% compared to the 1st Quarter of 2018

²³

<https://www.sec.gov/ix?doc=/Archives/edgar/data/1617640/000161764019000005/q42018form10-kdoc.htm>

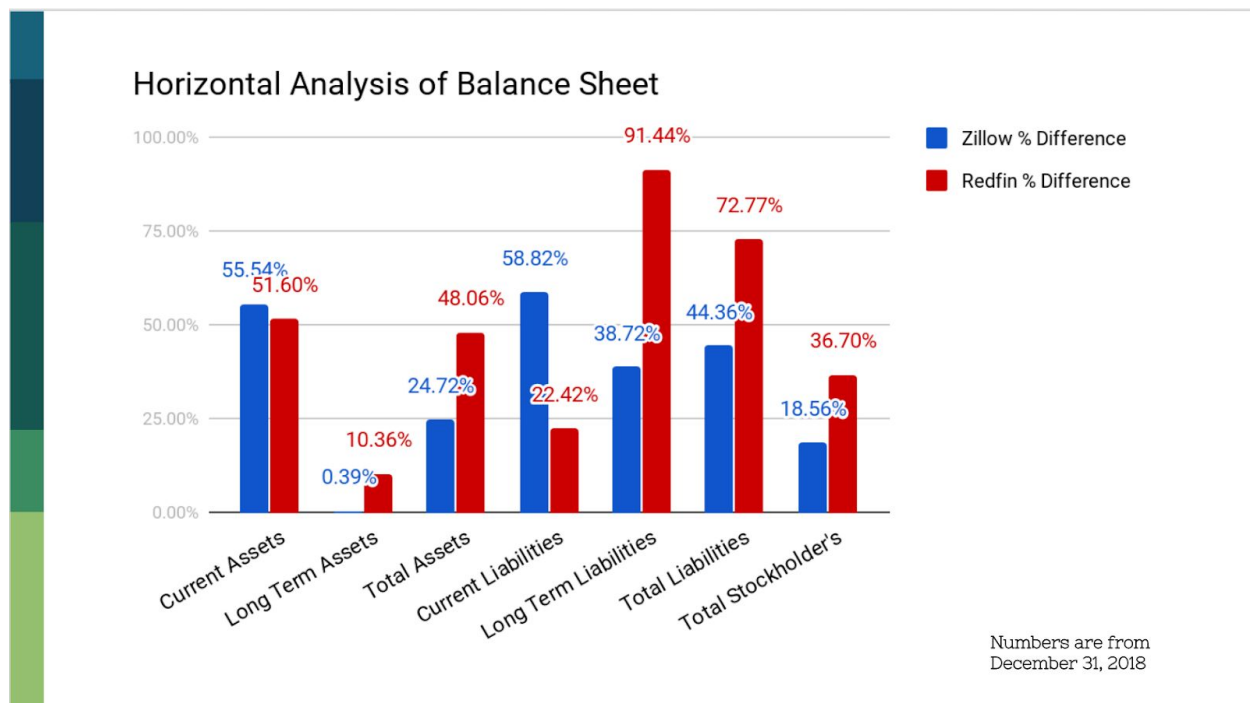
8. Total liabilities of the company increased by \$ 232.4 million
9. There is a negative cash flow from operating activities of \$ 145.5 million, the value dropped by \$ 120.8 million compared to 1st quarter of 2018
10. Net loss is \$ 67.5 million compared to the net loss of \$ 18.5 million in 1st quarter of 2018. Net loss increased by 263.2%

Horizontal and Vertical Analysis

Horizontal Analysis

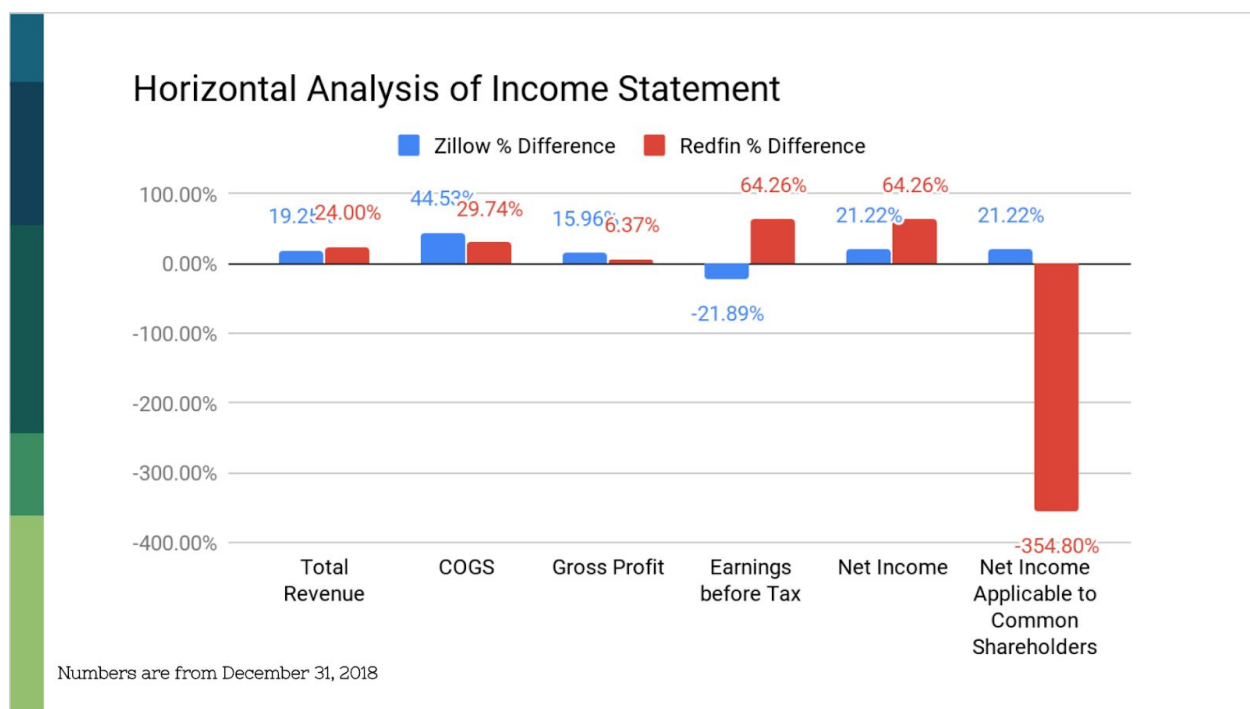
Horizontal Analysis shows changes over time in related items in comparative financial statements. Analysts can use horizontal analysis to compare the net sales of a company for 2018 and 2017, which allows analysts, investors, and creditors to spot trends and growth patterns.

Horizontal Analysis of the Balance Sheet



From beginning of 2017 to end of 2018, Zillow and Redfin have increased their current assets difference by a little more than 50%. Redfin has significantly increased its long term assets and long term liabilities at a higher rate compared to Zillow, indicating that the company is investing more in its long term than Zillow is for the specified year. Redfin increased its stockholders equity at a higher rate than Zillow did.

Horizontal Analysis of the Income Statement

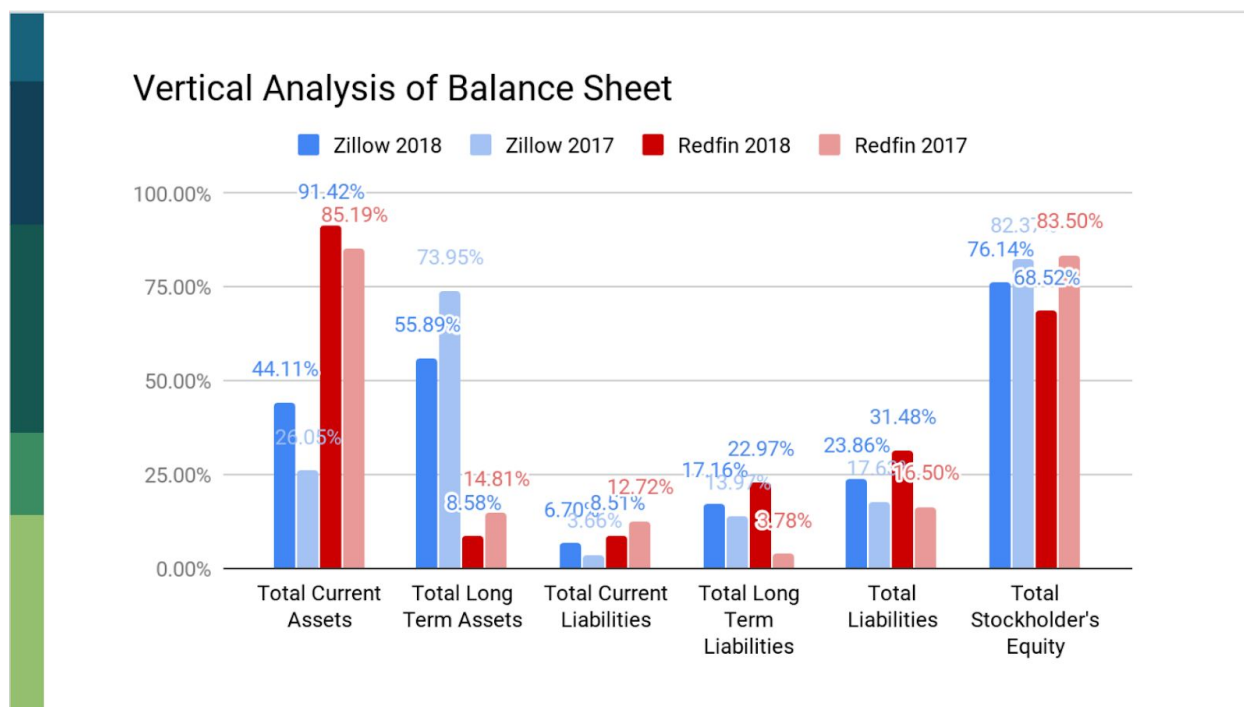


From beginning of 2017 to end of 2018, Redfin increased its total revenue difference by 24% while Zillow increased its total revenue difference by about 19%. However, Zillow's cost of revenue difference was almost double of Redfin's difference in cost of revenue. Zillow increased its gross profit difference by about 16% while Redfin increased its gross profit difference by 6.37% from its previous year. With a net loss applicable to common shareholders of about \$190.92M in 2017, Redfin scored -354.80% from 2017 to 2018 as a result of increasing its net income applicable to common shareholders.

Vertical Analysis

Vertical Analysis shows the relationship of each component to the total within a single financial statement.

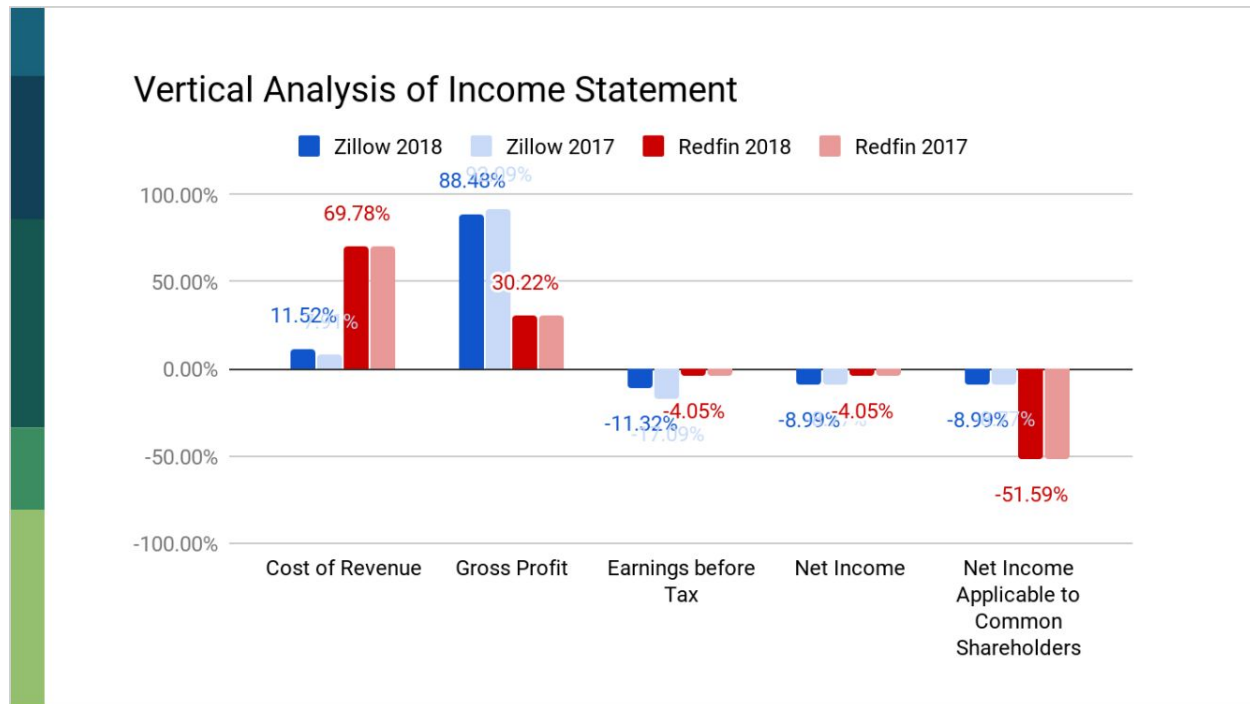
Vertical Analysis of the Balance Sheet



Zillow doubled its current assets to total assets in 2018 and closely doubled its current liabilities compared to its numbers in 2017. The percentage of long term assets to total assets decreased from 2017 to 2018. Similarly, the percentage of total stockholders equity decreased from 2017 to 2018.

Redfin increased its current assets to total assets. Its current assets make up 91.42% of its total assets while long assets make up about 8.58%. The stockholders equity make up about 69% of its total liabilities and stockholders equity in 2018. Redfin from 2017 to 2018 increased its portion of long term liabilities by about 7 times. This indicates the company is investing in long-term operations and investments for higher growth by increasing its debts.

Vertical Analysis of the Income Statement

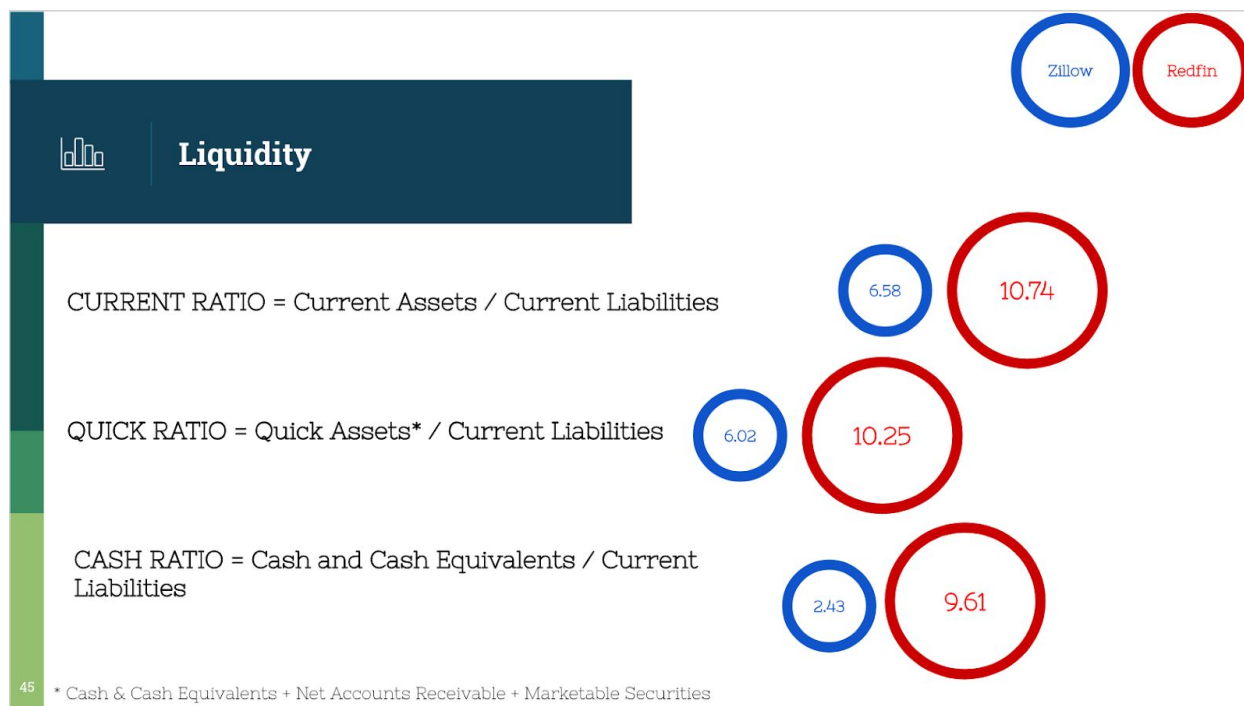


For Zillow, the cost of revenue make up about 11.52% of its total revenue or net sales while gross profit makes about 88.48% of its total revenue in 2018. The percentage of cost of revenue was lower in 2017 with a higher gross profit percentage of the total revenue. The percentage of net loss stayed about the same (about -9%) in 2017 and 2018.

For Redfin, the percentage of cost of revenue to total revenue increased by about 6% while the percentage of gross profit decreased about 6% from 2017 to 2018. Percentage of net loss doubled from 2017 to 2018.

Key Ratios

Liquidity



Current Ratio

The current ratio is equal to the total current assets over total current liabilities. The current ratio measures how quickly a company's total current assets can cover its total current obligations on a specific date. If the ratio is greater than 1, the company's current assets are capable of covering its current liabilities.

The current ratio for Zillow in 2018 is 6.58 while the current ratio for Redfin is 10.74. By having a higher ratio, Redfin would give creditors more confidence that the company would pay off its liabilities in less than a year than compared to Zillow's current ratio.

Quick Ratio

The quick ratio compares its quick assets, which includes cash, net accounts receivables, and marketable securities, to its current liabilities. The ratio equals quick assets over current liabilities of a company. Similar to the current ratio, the quick ratio measures how sufficient a company's highly liquid assets can cover its current liabilities.

The quick ratio for Zillow in 2018 is 6.02 while Redfin's quick ratio is higher, at 10.25. Having a higher ratio gives creditors more confidence to lend Redfin money that is to be paid in less than one year compared to Zillow.

Cash Flow Ratio

The cash flow ratio equals cash and cash equivalents over the total current liabilities. It measures the sufficiency of a company's available cash, which importantly keeps the company going, pay its employees, and meet its obligations to creditors.

The cash flow ratio for Zillow in 2018 is 2.43 while the ratio is 9.61 for Redfin. Redfin has a higher measure of cash and cash equivalents over its total current liabilities. While this looks great compared to Zillow, Redfin can look into ways to efficiently use its cash, such as by investing in productive assets or paying off its debts.

Profitability



Return on Equity

The return on equity (ROE) ratio equals the net income over its average total shareholders equity. It measures the rate of return of the company's efficiency at generating profits for every shareholder's equity unit. The percentage reflects the return the investors expect to earn on the money they invest in the company.

The negative numbers for Zillow and Redfin, -4.04% and -13.82%, respectively, indicate warning signs to investors that they lost money on the amount they invested into the company for 2018. Although Zillow reported a larger net loss (-\$120M) than Redfin (-\$42M), Zillow is more effective in managing its assets to create profits compared to Redfin because Zillow has less shareholders equity to manage. Both companies should look into increasing their net profits.

Return on Assets

The return on assets (ROA) ratio equals the net income over average total assets. It shows how well a company uses what it has to generate earnings.

Zillow's ROA was -3.19% while Redfin's ROA was -10.18% in 2018. For every dollar worth of asset, Zillow loses an average of -3.19% of its net income while Redfin loses -10.18% of its income. Thus, Zillow is better at utilizing its assets more effectively than Redfin although both have negative returns. Both companies should look into ways to reduce their asset costs, increasing revenues, or reducing expenses to increase ROA.

Earnings Per Share

The earnings per share (EPS) ratio used is the sum of the net income and preferred dividends over the average common shares outstanding. It measures the return for every common share invested. EPS is widely used in evaluating a company's performance and profitability and is the only ratio required by GAAP to be disclosed on the statement. This is important because a lot of companies can manipulate their EPS numbers to their favor, which can mislead investors and result in lawsuits for unethical behaviors.

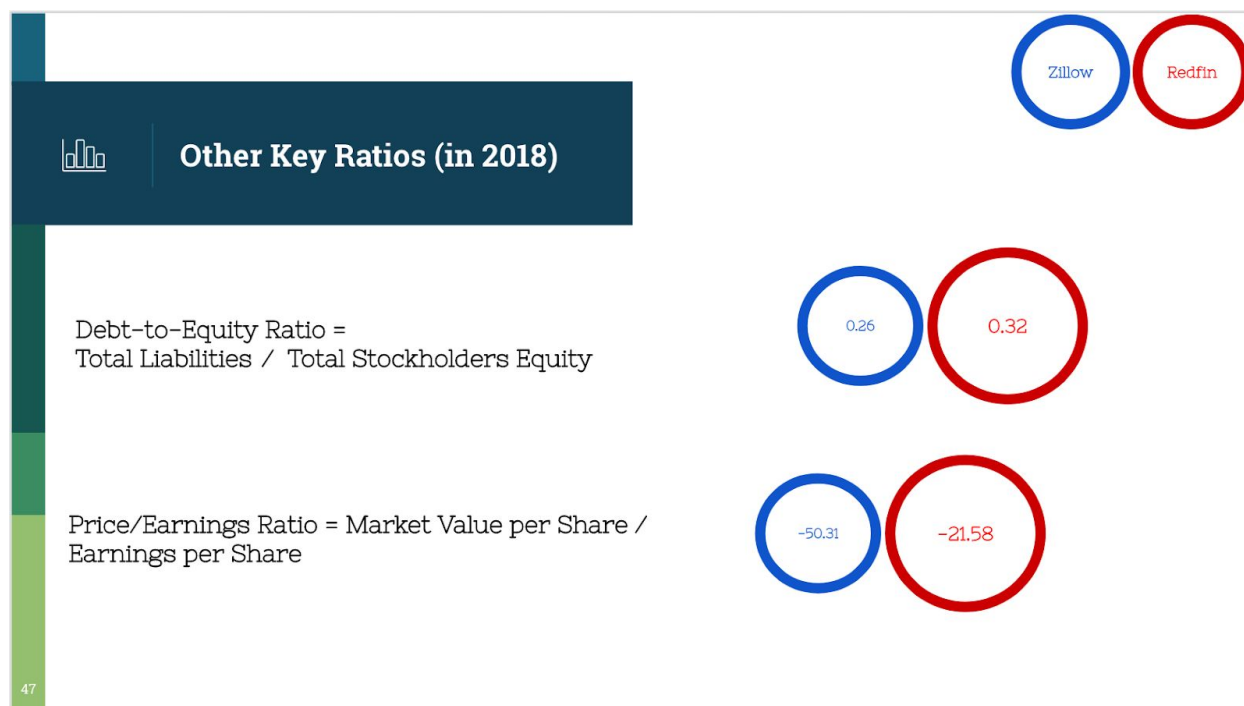
For every share of its stock, Zillow lost -0.61 in 2018 while Redfin lost -0.49 per share of its stock. The negative EPS ratios indicate less value to investors, meaning they lost in profits for their shares.

Operating Profit Margin

The operating profit margin ratio equals the company's operating net income over its net sales revenue. It is used to measure operating efficiency and profitability.

For every dollar of sale, Zillow's operating profit margin for 2018 was -3.42% while Redfin's profit margin was -9.02%. The negative percentages show that Zillow and Redfin experienced net losses for every dollar of sale. This indicates possibly expenses are too large with respect to sales and can mean that Redfin and Zillow are struggling to manage its expenses or failing to achieve good sales.

Other Key Ratios in 2018



Debt-to-Equity Ratio

The debt-to-equity ratio equals total liabilities over the total stockholders equity. This measures the solvency of the company. Debt is risky for a company because specific interest payments must be made even if the company has not earned sufficient income to pay them.

For every one dollar of Zillow's equity, Zillow had 0.26 worth of liabilities. For every one dollar of Redfin's equity, Redfin had 0.32 worth of liabilities. Given that Redfin has a higher debt-to-equity ratio than Zillow, Redfin is at great risk to pay back its creditors. Having a higher debt-to-equity ratio could mean that Redfin is more aggressive in investing in its growth with more debt. This can potentially lead to more earnings on the long run.

Price Per Earnings Ratio

The price per earnings (P/E) ratio equals the market value per share over the earnings per share. This measures the relationship between the current market price of a company's stock and its earnings per share. The P/E ratio reflects the stock market's assessment of a company's future performance.

The P/E ratio for Zillow for 2018 is -50.31 while the ratio for Redfin is -21.58 per earnings per share. Redfin may experience a higher growth in the future by having a higher ratio. However, both ratios for Zillow and Redfin are negative, which indicate warnings signs to investors that the companies lost money. Investors should be aware of the risks they are getting into when buying from unprofitable companies. To increase their P/E ratios, Zillow and Redfin can decrease their debt, build new factories, or expand their operations.

Position as an Investor

Rate earned on stockholders equity ²⁴

Rate earned on stockholders equity is calculated to measure the rate of income earned on the amount invested by the stockholders. The higher the rate the more effective the management was at generating a return on the shareholders' invested capital.

From the table below, it can be seen that Redfin's rate was higher than Zillow in 2017. But, the firm experienced a large drop in 2018, taking their number into the negatives and lower than Zillow.

Zillow			Redfin	
2017	2018		2017	2018
-3.64%	-4.04%		9.14%	-13.82%

Ratio of Net Sales to Assets ²⁵

Ratio of net sales to assets is a profitability measure that observes how effective a firm is at utilizing its assets. The higher the ratio the more effective a firm is at managing and utilizing their assets.

From the table below, Refin had higher ratio than Zillow in both 2017 and 2018 despite the drop they experienced in 2018.

Zillow			Redfin	
2017	2018		2017	2018
1.5	1.0		2.2	1.3

²⁴ <https://financial-dictionary.thefreedictionary.com/Rate+Earned+on+Stockholders+Equity>

²⁵ <https://www.myaccountingcourse.com/financial-ratios/asset-turnover-ratio>

Earnings per Share

²⁶Earnings per share is calculated as a ratio of a company's profit to the outstanding shares of its common stock. The higher the EPS is, the more money the shares of stock will be worth because investors are willing to pay more for higher profits.

From the table below, Redfin has higher EPS compared to Zillow Group. Hence, an investor is more likely to invest in Redfin

Zillow			Redfin	
2017	2018		2017	2018
-0.51	-0.61		-4.447	-0.49

Price to Earnings Ratio²⁷

P/E ratio is a useful metric that is used for valuing a company. It's a ratio of its current share price relative to its earnings per share. It is useful to determine the relative value of a company's shares against its own historical record or against other companies in an apples-to-apples comparison. A high P/E ratio indicates that investors expect higher earnings (which is built into the price of the stock price). However, a very high P/E ratio may indicate that stock is being over-valued (and vice versa). In essence, the P/E ratio indicates the dollar amount an investor can expect to invest in a company in order to earn one dollar of the company's earnings.

From the below table, Redfin has a higher P/E ratio compared to Zillow group. Hence, an investor is more likely to invest in Redfin.

Zillow			Redfin	
2017	2018		2017	2018
-79.88	-50.31		-7.04	-21.58

²⁶ <https://www.investopedia.com/terms/e/eps.asp>

²⁷ <https://www.investopedia.com/terms/p/price-earningsratio.asp>

Profit Margin

²⁸Operating margin is a measure of how much profit a company makes from its ongoing core business operations on a unit of sales (Dollar/Euro, Etc.), after accounting for variable costs of production (salary, raw material, overhead) but before paying interest or tax. It is calculated by dividing a company's operating profit by its net sales. A higher operating margin indicates a company's profitability.

From the table below, Zillow Group has a slightly more positive operating Margin compared to Redfin, and hence Investors are more likely to invest in Zillow Group.

Zillow			Redfin	
2017	2018		2017	2018
1.17%	-3.42%		-4.32%	-9.02%

Revenue Growth²⁹

Revenue growth is the change (Increase/decrease) in company sales when compared sequentially to a previous unit of time (year-over-year/quarterly). Revenue growth as a metric by itself is not very valuable as it does not paint a picture of market conditions. However, looking at revenue growth over time can give an idea about the growth of a company. A higher revenue growth indicates the performance of the company.

From the table below, Redfin has higher revenue growth YoY compared to Zillow Group and hence an Investor is more likely to invest in Redfin.

	Zillow Group			Redfin		
2016	2017	2018		2016	2017	2018
31.31%	27.19%	23.84%		42.62%	38.48%	31.58%

²⁸ <https://www.investopedia.com/terms/p/profitmargin.asp>

²⁹ <https://www.business-literacy.com/financial-concepts/revenue-growth/>

3-year-period		3-year-period
~25.72% per year		~37.49% per year

Return on Assets³⁰

Return on Assets is the ratio of net income divided by the Average total Assets. It is the profitability ratio that measures how much profit company can generate from its assets. It measures efficiency of the management in generating earnings from their assets on their balance sheet. The higher the number, the more efficient is the management of the company in managing its balance sheet to generate profits.

Return on Assets for Zillow is -3.18% and -10.1% for Redfin. In 2017 ratio is -0.2% and -7.2% for Zillow and Redfin respectively.

A low return on Assets for Redfin indicates that the company is not making enough income by use of its assets. Zillow even though the percentage is negative it is better than Redfin.

Zillow		Redfin	
2017	2018	2017	2018
-0.2%	-3.18%	-7.2%	-10.1%

³⁰ <https://www.inc.com/encyclopedia/return-on-assets-roa.html>

Position as a Creditor

Ratio of Liabilities to Stockholders Equity³¹

It is the ratio of total Liabilities to the total stockholders equity. It is used to evaluate the financial leverage of a company. It reflects the ability of shareholders equity to cover the outstanding debts in case of a business downturn.

It is used to know the extent of the company's debt as means of leveraging its assets. Higher the ratio higher is the risk associated, it means the company is friendly in financing its growth with debt.

The Ratio of Liabilities to Stockholders equity is 0.313 for zillow and 0.459 for Redfin in 2018. The ratio is 0.214 and 0.197 for zillow and redfin in 2017 respectively.

Redfin has high value of ratio in 2018. The increase from 2017 is 132.9% where as percentage increase for Zillow is 46.2%. Therefore Zillow has a low value of ratio than Redfin and is better for the creditors.

Zillow		Redfin	
2017	2018	2017	2018
0.214	0.313	0.197	0.459

³¹ <https://www.investopedia.com/terms/d/debtequityratio.asp>

Ratio of Fixed Assets to Long Term Liabilities³²

It is a way to measure the solvency of the company. It is calculated by dividing the value of fixed assets by the amount of long-term debt.

The company's long-term liabilities are often secured with fixed assets. This is the reason why creditors are interested in this ratio. A higher number is better, low value of ratio indicates your fixed assets might not cover the liabilities.

The Ratio of Fixed Assets to Long term liabilities is 3.249 for zillow and 0.298 for Redfin in 2018. The ratio is 5.809 and 3.052 for zillow and redfin in 2017 respectively.

From the below values zillow has good amount of assets to cover its long term liabilities and good for the creditor.

Zillow			Redfin	
2017	2018		2017	2018
5.809	3.249		3.052	0.298

Current Ratio³³

It is a liquidity ratio that measures the company's ability to pay short term debts or debts due within an year. It is calculated by dividing current Assets to the Current Liabilities.

The value of ratio 1.0 or greater tells that company is doing well to pay its current or short term liabilities. Ratio less than 1.0 is a sign of financial difficulty.

³² <https://eanaliza.pl/en/long-term-debt-to-equity>

³³ <https://www.investopedia.com/terms/c/currentratio.asp>

The Ratio of Current Assets to Current liabilities is 6.58 for zillow and 10.73 for Redfin in 2018. The ratio is 7.1 and 6.69 for zillow and redfin in 2017 respectively.

Although this is not the only ratio to look for creditors, Redfin has high ratio of 10.73 and is in safe range for creditors.

Zillow		Redfin	
2017	2018	2017	2018
7.1	6.58	6.69	10.73

Fixed Charge Coverage Ratio³⁴

The fixed charge coverage ratio is measures the company's ability to pay all of the fixed expenses with income before interest and taxes. It is calculated by dividing Interest expense by sum of the income before tax, interest expense.

Higher the ratio indicates better position of the company and less risk to loan to.

Lower value of ratio indicates that the company can barely meet its monthly bills.

The Fixed charge coverage ratio is 4.13 for zillow and 12.94 for Redfin in 2018. The ratio is 6.88 and 0.00 for zillow and redfin in 2017 respectively.

Redfin has a high ratio and would be less risky for creditors.

Zillow		Redfin	
2017	2018	2017	2018
6.88	4.13	0.00	12.94

³⁴ <https://www.myaccountingcourse.com/financial-ratios/fixed-charge-coverage-ratio>

Operating Cash Flow Ratio³⁵

Operating cash flow ratio is a measure of how well the company's current liabilities are covered by cash flows from operations. This can help measure a company's liquidity in short term.

It is calculated by dividing cash flow from operations to the total current liabilities.

It is a measure of the number of times a company can pay off debts with cash generated in the same period. The higher ratio indicates that company has earned more cash in a period than needed to pay off its current liabilities.

The Operating cash flow ratio is 0.03 for zillow and -0.794 for Redfin in 2018. The ratio is 0.90 and 0.149 for zillow and redfin in 2017 respectively.

Currently Zillow has a better operating cash Flow Ratio than Redfin thus more likely for creditors.

Zillow		Redfin	
2017	2018	2017	2018
0.90	0.03	0.149	-0.794

³⁵ <https://www.investopedia.com/terms/o/ocfratio.asp>

Conclusion

 **Zillow**[®]GROUP

REDFIN

Investor



Creditor

