

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2023

OR

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

For the transition period from _____ to _____

Commission file number 0-24531

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CoStar Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

52-2091509

(I.R.S. Employer Identification No.)

**1331 L Street, NW
Washington, DC 20005**

(Address of principal executive offices) (Zip Code)

(202) 346-6500

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock (\$0.01 par value)	CSGP	Nasdaq Global Select Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of July 21, 2023, there were 408,336,600 shares of the registrant's common stock outstanding.

COSTAR GROUP, INC.
FORM 10-Q
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Glossary of Terms

The following abbreviations or acronyms used in this Quarterly Report on Form 10-Q (this "Report") are defined below:

Abbreviation or Acronym	Definition
2020 Credit Agreement	The second amended and restated credit agreement, which amended and restated in its entirety the then-existing credit agreement originally entered into on April 1, 2014, dated July 1, 2020, as amended by the first amendment to the second amended and restated credit agreement, dated May 8, 2023.
2022 Form 10-K	CoStar Group's Annual Report on Form 10-K for the year ended December 31, 2022 filed with the SEC on February 22, 2023
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Brexit	The June 23, 2016 U.K. referendum in which British citizens approved an exit from the E.U.
Business Immo	The legal entity BIH, a French société par actions simplifiée, the owner and operator of Business Immo, a leading commercial real estate news service provider in France
Business Immo Acquisition	CoStar UK's acquisition of the issued share capital of Business Immo on April 5, 2022
CECL	Current expected credit losses
CoStar Group (also the "Company," "we," "us" or "our")	The legal entity, CoStar Group, Inc., a Delaware corporation, one or more of its consolidated subsidiaries or operating segments, or the entirety of CoStar Group, Inc. and its consolidated subsidiaries
CoStar UK	The legal entity, CoStar UK Limited, a wholly owned subsidiary of CoStar Group
Covenant Suspension Period	A period of time defined in the 2020 Credit Agreement in which we maintain a corporate investment grade rating from any two of Standard & Poor's Rating Services, Fitch Ratings, Inc. or Moody's Investors Services, Inc. and no event of default is continuing
CRI	CoStar Realty Information, Inc., a Delaware corporation and wholly owned subsidiary of CoStar Group, Inc.
DSUs	Deferred Stock Units
E.U.	European Union
EBITDA	Net income before interest income or expense, net; other income or expense, net; loss on debt extinguishment; income taxes; depreciation and amortization
ESG	Environmental, Social and Governance
ESPP	Employee Stock Purchase Plan
EURIBOR	Euro Interbank Offered Rate
FASB	Financial Accounting Standards Board
GAAP	Generally accepted accounting principles in the U.S.
GILTI	Global intangible low taxed income inclusion
Halo Merger Sub	Snapped Halo Merger Sub Corp., a Delaware corporation and wholly-owned subsidiary of CoStar Realty Information, Inc.
Homes.com	A homes for-sale listings site
Homesnap	Homesnap is an online and mobile software platform that provides residential real estate professionals access to applications that manage residential real estate agent workflow and marketing campaigns delivered on third-party platforms acquired in the Homesnap Acquisition
Homesnap Acquisition	CRI's acquisition of Homesnap completed on December 22, 2020, pursuant to an Agreement and Plan of Merger dated November 20, 2020 between CRI, Snapped Halo Merger Sub Corp., a Delaware corporation and wholly owned subsidiary of CRI, and Homesnap, Inc., a Delaware corporation. Snapped Halo Merger Sub Corp. was merged with and into Homesnap, Inc., with Homesnap, Inc. surviving the merger as a wholly owned subsidiary of CRI
Land.com Network	Our network of sites featuring rural lands for sale including: Lands of America, LandAndFarm and LandWatch

Abbreviation or Acronym	Definition
LIBOR	London Interbank Offered Rate
Matching RSUs	Awards of matching restricted stock units awarded under the Company's Management Stock Purchase Plan
MSPP	Management Stock Purchase Plan
ROU	Right-of-use
SEC	U.S. Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
SEM	Search Engine Marketing
Senior Notes	2.800% notes issued by CoStar Group, Inc. due July 15, 2030
SOFR	Secured Overnight Financing Rate
SONIA	Sterling Overnight Index Average
STAR Report	A benchmarking tool used by the hospitality industry to compare a hotel's performance against a set of similar hotels in the same geographical area.
STR	Originally known as "Smith Travel Research", STR is a global data and analytics company that specializes in benchmarking hotel performance and providing market insights to the industry
Ten-X	The legal entity Ten-X Holding Company, Inc. and its directly and indirectly owned subsidiaries
Term SOFR	The forward-looking SOFR term rates administered by CME Group Benchmark Administration Limited
U.K.	The United Kingdom of Great Britain and Northern Ireland
U.S.	The United States of America

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

COSTAR GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenues	\$ 605,906	\$ 536,308	\$ 1,190,272	\$ 1,052,133
Cost of revenues	112,362	100,971	231,558	196,450
Gross profit	493,544	435,337	958,714	855,683
Operating expenses:				
Selling and marketing (excluding customer base amortization)	250,026	181,344	476,260	325,341
Software development	63,369	51,587	129,959	105,608
General and administrative	90,563	77,345	180,071	155,306
Customer base amortization	10,440	14,878	21,057	30,970
	414,398	325,154	807,347	617,225
Income from operations	79,146	110,183	151,367	238,458
Interest income (expense), net	51,911	(3,399)	95,459	(11,117)
Other income, net	609	1,343	1,190	2,207
Income before income taxes	131,666	108,127	248,016	229,548
Income tax expense	31,146	24,654	60,365	56,757
Net income	\$ 100,520	\$ 83,473	\$ 187,651	\$ 172,791
Net income per share - basic	\$ 0.25	\$ 0.21	\$ 0.46	\$ 0.44
Net income per share - diluted	\$ 0.25	\$ 0.21	\$ 0.46	\$ 0.44
Weighted-average outstanding shares - basic	405,429	393,342	404,960	393,119
Weighted-average outstanding shares - diluted	406,751	394,478	406,454	394,356

See accompanying notes.

COSTAR GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income	\$ 100,520	\$ 83,473	\$ 187,651	\$ 172,791
Other comprehensive income (loss), net of tax				
Foreign currency translation gain (loss)	3,377	(17,842)	7,471	(24,198)
Total other comprehensive income (loss), net of tax	3,377	(17,842)	7,471	(24,198)
Total comprehensive income	<u>\$ 103,897</u>	<u>\$ 65,631</u>	<u>\$ 195,122</u>	<u>\$ 148,593</u>

See accompanying notes.

COSTAR GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)
(unaudited)

	June 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,205,295	\$ 4,967,970
Accounts receivable	196,255	166,140
Less: Allowance for credit losses	(15,042)	(12,195)
Accounts receivable, net	181,213	153,945
Prepaid expenses and other current assets	58,376	63,952
Total current assets	5,444,884	5,185,867
Deferred income taxes, net	9,724	9,722
Property and equipment, net	359,455	321,250
Lease right-of-use assets	79,491	80,392
Goodwill	2,321,205	2,314,759
Intangible assets, net	295,022	329,306
Deferred commission costs, net	162,391	142,482
Deposits and other assets	17,497	16,687
Income tax receivable	2,005	2,005
Total assets	\$ 8,691,674	\$ 8,402,470
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 61,546	\$ 28,460
Accrued wages and commissions	100,915	104,988
Accrued expenses	115,654	89,113
Income taxes payable	11,100	10,438
Lease liabilities	40,329	36,049
Deferred revenue	113,231	103,567
Total current liabilities	442,775	372,615
Long-term debt, net	989,858	989,210
Deferred income taxes, net	69,280	76,202
Income taxes payable	16,978	14,001
Lease and other long-term liabilities	71,711	80,321
Total liabilities	1,590,602	1,532,349
Total stockholders' equity	7,101,072	6,870,121
Total liabilities and stockholders' equity	\$ 8,691,674	\$ 8,402,470

See accompanying notes.

COSTAR GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

	Common Stock		Additional	Accumulated	Retained	Total
	Shares	Amount	Paid-In Capital	Other Comprehensive Loss	Earnings	Stockholders' Equity
Balance at December 31, 2022	406,671	\$ 4,066	\$ 5,065,511	\$ (29,075)	\$ 1,829,619	\$ 6,870,121
Net income	—	—	—	—	87,131	87,131
Other comprehensive income	—	—	—	4,094	—	4,094
Exercise of stock options	24	—	500	—	—	500
Restricted stock grants	1,262	13	(13)	—	—	—
Restricted stock grants surrendered	(480)	(5)	(18,642)	—	—	(18,647)
Employee stock purchase plan	79	1	5,810	—	—	5,811
Management stock purchase plan	67	1	(2,985)	—	—	(2,984)
Stock-based compensation expense	—	—	19,583	—	—	19,583
Balance at March 31, 2023	407,623	\$ 4,076	\$ 5,069,764	\$ (24,981)	\$ 1,916,750	\$ 6,965,609
Net income	—	—	—	—	100,520	100,520
Other comprehensive income	—	—	—	3,377	—	3,377
Exercise of stock options	396	4	6,946	—	—	6,950
Restricted stock grants	9	1	(1)	—	—	—
Restricted stock grants surrendered	(67)	(1)	(813)	—	—	(814)
Employee stock purchase plan	50	1	3,889	—	—	3,890
Stock-based compensation expense	—	—	21,540	—	—	21,540
Balance at June 30, 2023	408,011	\$ 4,081	\$ 5,101,325	\$ (21,604)	\$ 2,017,270	\$ 7,101,072

See accompanying notes.

COSTAR GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2021	394,936	\$ 3,946	\$ 4,253,318	\$ (5,758)	\$ 1,460,166	\$ 5,711,672
Net income	—	—	—	—	89,318	89,318
Other comprehensive loss	—	—	—	(6,356)	—	(6,356)
Restricted stock grants	1,277	13	(13)	—	—	—
Restricted stock grants surrendered	(403)	(4)	(19,455)	—	—	(19,459)
Employee stock purchase plan	64	1	4,117	—	—	4,118
Stock-based compensation expense	—	—	18,005	—	—	18,005
Balance at March 31, 2022	395,874	3,956	4,255,972	(12,114)	1,549,484	5,797,298
Net income	—	—	—	—	83,473	83,473
Other comprehensive loss	—	—	—	(17,842)	—	(17,842)
Restricted stock grants	65	1	(1)	—	—	—
Restricted stock grants surrendered	(108)	(1)	(295)	—	—	(296)
Stock-based compensation expense	—	—	17,680	—	—	17,680
Employee stock purchase plan	65	1	4,039	—	—	4,040
Balance at June 30, 2022	395,896	\$ 3,957	\$ 4,277,395	\$ (29,956)	\$ 1,632,957	\$ 5,884,353

See accompanying notes.

COSTAR GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2023	2022
Operating activities:		
Net income	\$ 187,651	\$ 172,791
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	51,690	64,127
Amortization of deferred commissions costs	45,267	35,996
Amortization of Senior Notes discount and issuance costs	1,197	1,178
Non-cash lease expense	14,147	15,080
Stock-based compensation expense	41,871	35,959
Deferred income taxes, net	(6,989)	(14,946)
Credit loss expense	13,938	6,890
Other operating activities, net	540	(1,149)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(40,601)	(33,318)
Prepaid expenses and other current assets	(4,220)	3,152
Deferred commissions	(65,028)	(54,155)
Accounts payable and other liabilities	54,422	14,098
Lease liabilities	(16,559)	(15,932)
Income taxes payable, net	12,916	(27,770)
Deferred revenue	8,873	8,520
Other assets	(735)	1,578
Net cash provided by operating activities	298,380	212,099
Investing activities:		
Proceeds from sale of property and equipment and other assets	—	5,034
Purchase of Richmond assets	(45,621)	(25,664)
Purchases of property and equipment and other assets	(8,801)	(30,746)
Cash paid for acquisitions, net of cash acquired	—	(6,331)
Net cash used in investing activities	(54,422)	(57,707)
Financing activities:		
Repayments of long-term debt assumed in acquisition	—	(2,155)
Repurchase of restricted stock to satisfy tax withholding obligations	(22,445)	(19,755)
Proceeds from exercise of stock options and employee stock purchase plan	16,175	7,340
Net cash used in financing activities	(6,270)	(14,570)
Effect of foreign currency exchange rates on cash and cash equivalents	(363)	(2,832)
Net increase in cash and cash equivalents	237,325	136,990
Cash and cash equivalents at the beginning of period	4,967,970	3,827,126
Cash and cash equivalents at the end of period	<u>\$ 5,205,295</u>	<u>\$ 3,964,116</u>
Supplemental cash flow disclosures:		
Interest paid	\$ 15,432	\$ 14,953
Income taxes paid	\$ 63,725	\$ 99,507
Supplemental non-cash investing and financing activities:		
Consideration owed for acquisitions	\$ —	\$ 55
Accrued capital expenditures and non-cash landlord incentives	\$ 8,220	\$ 9,538

See accompanying notes.

COSTAR GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. ORGANIZATION

CoStar Group (the “Company”) provides information, analytics, online marketplaces and auction services to the commercial real estate and related business community through its comprehensive, proprietary database of commercial real estate information and related tools. The Company provides online marketplaces for commercial real estate, apartment rentals, residential real estate, land for sale and businesses for sale, and its services are typically distributed to its clients under subscription-based agreements that typically renew automatically, a majority of which have a term of at least one year. The Company operates within two operating segments, North America, which includes the U.S. and Canada, and International, which primarily includes Europe, Asia-Pacific and Latin America.

The Company acquired Business Immo in April 2022. See Note 5 for further discussion of this acquisition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Accounting policies are consistent for each operating segment.

Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with GAAP for interim financial information. In the opinion of the Company’s management, the financial statements reflect all adjustments, consisting only of a normal recurring nature, necessary to present fairly the Company’s financial position at June 30, 2023 and December 31, 2022, the results of its operations for the three and six months ended June 30, 2023 and 2022, its comprehensive income for the three and six months ended June 30, 2023 and 2022, its changes in stockholders' equity for the three and six months ended June 30, 2023 and 2022 and its cash flows for the six months ended June 30, 2023 and 2022.

Certain notes and other information have been condensed or omitted from the interim financial statements presented in this Report. Therefore, these financial statements should be read in conjunction with the Company’s 2022 Form 10-K.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, the Company evaluates its estimates and assumptions, including those related to revenue recognition, allowance for credit losses, the useful lives and recoverability of long-lived and intangible assets, goodwill, income taxes, accounting for business combinations, stock-based compensation, estimating the Company's incremental borrowing rate for its leases and contingencies, among others. The Company bases these estimates on historical and anticipated results, trends and various other assumptions that it believes are reasonable, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities and recorded revenues and expenses. Actual results could differ from these estimates.

Revenue Recognition

The Company derives revenues primarily by (i) providing access to its proprietary database of commercial real estate information and (ii) providing online marketplaces for professional property management companies, property owners, real estate agents and brokers and landlords, in each case, typically through a fixed monthly fee for its subscription-based services. Other subscription-based services include (i) real estate and lease management solutions to commercial customers, real estate investors and lenders, (ii) access to applications to manage workflow and advertising and marketing services for residential real estate agents, (iii) benchmarking and analytics for the hospitality industry and (iv) market research, portfolio and debt analysis, management and reporting capabilities.

COSTAR GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Subscription contract rates are generally based on the number of sites, number of users, organization size, the client's business focus, geography, the number of properties reported on or analyzed, the number and types of services to which a client subscribes, the number of properties a client advertises and the prominence and placement of a client's advertised properties in the search results. The Company's subscription-based license agreements typically renew automatically, and a majority have a term of at least one year. Revenues from our subscription-based contracts were approximately 95% and 93% of total revenues for the three months ended June 30, 2023 and 2022, respectively, and 95% and 93% of total revenues for the six months ended June 30, 2023 and 2022, respectively.

The Company also derives revenues from transaction-based services including: (i) an online auction platform for commercial real estate through Ten-X, (ii) providing online tenant applications, including background and credit checks, and rental payment processing and (iii) ancillary products and services that are sold on an ad hoc basis.

The Company analyzes contracts to determine the appropriate revenue recognition using the following steps: (i) identification of contracts with customers, (ii) identification of distinct performance obligations in the contract, (iii) determination of contract transaction price, (iv) allocation of contract transaction price to the performance obligations, and (v) determination of revenue recognition based on timing of satisfaction of the performance obligations.

The Company recognizes revenues upon the satisfaction of its performance obligation(s) (upon transfer of control of promised services to its customers) in an amount that reflects the consideration to which it expects to be entitled to in exchange for those services. Revenues from subscription-based services are recognized on a straight-line basis over the term of the agreement. Revenues from transaction-based services are recognized when the promised product or services are delivered, which, in the case of Ten-X auctions, is at the time of a successful closing for the sale of a property.

In limited circumstances, the Company's contracts with customers include promises to transfer multiple services, such as contracts for its subscription-based services and professional services. For these contracts, the Company accounts for individual performance obligations separately if they are distinct, which involves the determination of the standalone selling price for each distinct performance obligation.

Deferred revenue results from amounts billed in advance to customers or cash received from customers in advance of the Company's fulfillment of its performance obligation(s) and is recognized as those obligations are satisfied.

Contract assets represent a conditional right to consideration for satisfied performance obligations that become a receivable when the conditions are satisfied. Contract assets are generated when contractual billing schedules differ from revenue recognition timing.

Certain sales commissions are considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions incurred for obtaining new contracts are deferred and then amortized as selling and marketing expenses on a straight-line basis over a period of benefit that the Company has determined to be three years. The three-year amortization period was determined based on several factors, including the nature of the technology and proprietary data underlying the services being purchased, customer contract renewal rates and industry competition. Sales commissions that do not represent incremental costs of obtaining a contract, or that would otherwise be amortized over a period of one year or less, are not subject to capitalization.

See Note 3 for further discussion of the Company's revenue recognition.

Cost of Revenues

Cost of revenues principally consists of salaries, benefits, bonuses, stock-based compensation expenses and other indirect costs for the Company's researchers who collect and analyze the real estate data that is the basis for the Company's information, analytics and online marketplaces and for employees that support these products. Additionally, cost of revenues includes the cost of data from third-party data sources, product hosting costs and costs related to advertising purchased on behalf of customers, credit card and other transaction fees relating to processing customer transactions, which are expensed as incurred, and the amortization of acquired trade names, technology and certain other intangible assets.

Foreign Currency Translation

The Company's reporting currency is the U.S. dollar. The functional currency for the majority of its operations is the local currency, with the exception of certain international locations for which the functional currency is the British Pound. Assets and

COSTAR GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

liabilities denominated in a foreign currency are translated into U.S. dollars using the exchange rates in effect as of the balance sheet date. Gains and losses resulting from translation are included in accumulated other comprehensive loss. Currency gains and losses on the translation of intercompany loans made to foreign subsidiaries that are of a long-term investment nature are also included in accumulated other comprehensive loss. Gains and losses resulting from transactions denominated in a currency other than the functional currency of the entity are included in other income, net in the condensed consolidated statements of operations using the average exchange rates in effect during the period. The Company recognized a net foreign currency loss of \$0.4 million for the three months ended June 30, 2023 and a net foreign currency gain of \$0.9 million for the three months ended June 30, 2022. The Company recognized a net foreign currency loss of \$0.8 million for the six months ended June 30, 2023 and a net foreign currency gain of \$1.3 million for the six months ended June 30, 2022.

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, net of tax, were as follows (in thousands):

	June 30, 2023	December 31, 2022
Foreign currency translation loss	\$ (21,604)	\$ (29,075)
Total accumulated other comprehensive loss	<u>\$ (21,604)</u>	<u>\$ (29,075)</u>

There were no amounts reclassified out of accumulated other comprehensive loss to the condensed consolidated statements of operations for the three and six months ended June 30, 2023 and 2022.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs include SEM, other digital marketing, television, radio, print and other media advertising. Advertising costs were \$141 million and \$92 million for the three months ended June 30, 2023 and 2022, respectively, and \$253 million and \$146 million for the six months ended June 30, 2023 and 2022, respectively.

Income Taxes

Deferred income taxes result from temporary differences between the tax basis of assets and liabilities and the basis reported in the Company's condensed consolidated financial statements. Deferred tax liabilities and assets are determined based on the difference between the financial statement and the tax basis of assets and liabilities using enacted rates in effect during the year in which the Company expects differences to reverse. Valuation allowances are provided against assets, including net operating losses, if the Company determines it is more likely than not that some portion or all of an asset may not be realized. Interest and penalties related to income tax matters are recognized in income tax expense.

The Company has elected to record the GILTI under the current-period cost method.

See Note 11 for further discussion of income taxes.

Net Income Per Share

Net income per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period on a basic and diluted basis.

COSTAR GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The following table sets forth the calculation of basic and diluted net income per share (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Numerator:				
Net income	\$ 100,520	\$ 83,473	\$ 187,651	\$ 172,791
Denominator:				
Denominator for basic net income per share — weighted-average outstanding shares	405,429	393,342	404,960	393,119
Effect of dilutive securities:				
Stock options, restricted stock awards and restricted stock units	1,322	1,136	1,494	1,237
Denominator for diluted net income per share — weighted-average outstanding shares	406,751	394,478	406,454	394,356
Net income per share — basic	\$ 0.25	\$ 0.21	\$ 0.46	\$ 0.44
Net income per share — diluted	\$ 0.25	\$ 0.21	\$ 0.46	\$ 0.44

The Company's potentially dilutive securities include outstanding stock options, unvested stock-based awards, which include restricted stock awards that vest over a specific service period, restricted stock awards with a performance and market condition, restricted stock units and Matching RSUs awarded under the Company's MSPP. Shares underlying unvested restricted stock awards that vest based on a performance and a market condition that have not been achieved as of the end of the period are not included in the computation of basic or diluted earnings per share. Diluted net income per share considers the impact of potentially dilutive securities except when the inclusion of the potentially dilutive securities would have an anti-dilutive effect.

The following table summarizes the shares underlying the unvested performance-based restricted stock and anti-dilutive securities excluded from the basic and diluted earnings per share calculations (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Performance-based restricted stock awards	681	621	681	621
Anti-dilutive securities	502	1,620	1,082	1,342

Stock-Based Compensation

Equity instruments issued in exchange for services performed by officers, employees, and directors of the Company are accounted for using a fair-value based method and the fair value of such equity instruments is recognized as expense in the condensed consolidated statements of operations.

For stock-based awards that vest over a specific service period, compensation expense is measured based on the fair value of the awards at the grant date and is recognized on a straight-line basis over the service period of the awards, net of an estimated forfeiture rate. For equity instruments that vest based on achievement of both a performance and market condition, stock-based compensation expense is recognized over the service period of the awards based on the expected achievement of the related performance conditions at the end of each reporting period. If the Company's initial estimates of the achievement of the performance conditions change, the related stock-based compensation expense may fluctuate from period to period based on those estimates. If the performance conditions are not met, no stock-based compensation expense will be recognized, and any previously recognized stock-based compensation expense will be reversed. For awards with both a performance and a market condition, the Company estimates the fair value of each equity instrument granted on the date of grant using a Monte Carlo simulation model. This pricing model uses multiple simulations to evaluate the probability of achieving the market condition to calculate the fair value of the awards, which includes the recent market price and volatility of the Company's shares. When

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determining the grant date fair value of all stock-based awards, the Company considers whether it is in possession of any material, non-public information that upon its release would have a material effect on its share price, and if so, whether the observable share price or expected volatility assumptions used in determining the fair value of the awards should be adjusted.

Stock-based compensation expense for stock options, restricted stock awards and restricted stock units issued under equity incentive plans, stock purchases under the ESPP, DSUs and Matching RSUs awarded under the MSPP included in the Company's condensed consolidated statements of operations were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Cost of revenues	\$ 3,522	\$ 2,991	\$ 6,905	\$ 5,961
Selling and marketing (excluding customer base amortization)	2,375	1,985	4,589	3,648
Software development	4,335	2,998	8,361	6,104
General and administrative	11,594	10,138	22,016	20,246
Total stock-based compensation expense	<u>\$ 21,826</u>	<u>\$ 18,112</u>	<u>\$ 41,871</u>	<u>\$ 35,959</u>

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company had no restricted cash as of June 30, 2023 and December 31, 2022.

Allowance for Credit Losses

The Company maintains an allowance for credit losses to cover its current expected credit losses on its trade receivables and contract assets arising from the failure of customers to make contractual payments. The Company estimates credit losses expected over the life of its trade receivables and contract assets based on historical information combined with current conditions that may affect a customer's ability to pay and reasonable and supportable forecasts. While the Company uses various credit quality metrics, it primarily monitors collectability by reviewing the duration of collection pursuits on its delinquent trade receivables and historical write-off trends. Based on the Company's experience, the customer's delinquency status, which is analyzed periodically, is the strongest indicator of the credit quality of the underlying trade receivables. The Company's policy is to write off trade receivables when they are deemed uncollectible. A majority of the Company's trade receivables are less than 365 days outstanding.

Under the CECL impairment model, the Company develops and documents its allowance for credit losses on its trade receivables based on five portfolio segments. The determination of portfolio segments is based primarily on the qualitative consideration of the nature of the Company's business operations and the characteristics of the underlying trade receivables, as follows:

- *CoStar Portfolio Segment* - The CoStar portfolio segment consists of two classes of trade receivables based on geographical location: North America and International.
- *Information Services Portfolio Segment* - The Information Services portfolio segment consists of four classes of trade receivables: CoStar Real Estate Manager; Information Services, North America; STR, North America; and STR, International.
- *Multifamily Portfolio Segment* - The Multifamily portfolio segment consists of one class of trade receivables.
- *LoopNet Portfolio Segment* - The LoopNet portfolio segment consists of one class of trade receivables.

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- *Other Marketplaces Portfolio Segment* - The Other Marketplaces portfolio segment consists of two classes of trade receivables: Ten-X and other marketplaces.

The majority of Residential revenues is e-commerce-based, where payments are collected at the time of sale, and does not result in accounts receivable. Residential accounts receivable and the related allowance for credit losses are not material.

See Note 4 for further discussion of the Company's accounting for allowance for credit losses.

Leases

The determination of whether an arrangement contains a lease and the classification of a lease, if applicable, is made at the commencement of the arrangement, at which time the Company also measures and recognizes an ROU asset, representing the Company's right to use the underlying asset, and a lease liability, representing the Company's obligation to make lease payments under the terms of the arrangement. For the purposes of recognizing ROU assets and lease liabilities associated with the Company's leases, the Company has elected the practical expedient to not recognize a ROU asset or lease liability for short-term leases, which are leases with a term of twelve months or less. The lease term is defined as the noncancelable portion of the lease term, plus any periods covered by an option to extend the lease if it is reasonably certain that the option will be exercised.

In determining the amount of lease payments used in measuring ROU assets and lease liabilities, the Company has elected the practical expedient not to separate non-lease components from lease components for all classes of underlying assets. Consideration deemed part of the lease payments used to measure ROU assets and lease liabilities generally includes fixed payments and variable payments based on either an index or a rate, offset by lease incentives. Upon commencement, the initial ROU asset also includes any lease prepayments. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The rates implicit within the Company's leases are generally not determinable. Therefore, the Company's incremental borrowing rate is used to determine the present value of lease payments. The determination of the Company's incremental borrowing rate requires judgment and is determined at lease commencement and is subsequently reassessed upon a modification to the lease arrangement.

Lease costs related to the Company's operating leases are generally recognized as a single ratable lease cost over the lease term.

See Note 7 for further discussion of the Company's accounting for leases.

Long-Lived Assets, Intangible Assets and Goodwill

Long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. The Company removes the cost and accumulated amortization of intangible assets as they become fully amortized.

Goodwill is tested annually for impairment by each reporting unit on October 1 of each year or more frequently if an event or other circumstance indicates that the Company may not recover the carrying value of the asset. The Company may first assess qualitative factors to evaluate whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, or elect to bypass such assessment. If it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying value, or the Company elects to bypass such assessment, the Company then determines the fair value of each reporting unit. The fair value of each reporting unit is compared to the carrying amount of the reporting unit. If the carrying value of the reporting unit exceeds the fair value, then an impairment loss is recognized for the difference.

Debt Issuance Costs

Costs incurred in connection with the issuance of long-term debt are deferred and amortized as interest expense over the term of the related debt using the effective interest method for term debt and on a straight-line basis for revolving debt. The Company made a policy election to classify deferred issuance costs on the revolving credit facility as a long-term asset on its condensed consolidated balance sheets. Upon a refinancing or amendment, previously capitalized debt issuance costs are

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expensed and included in loss on extinguishment of debt if the Company determines that there has been a substantial modification of the related debt. If the Company determines that there has not been a substantial modification of the related debt, any previously capitalized debt issuance costs are amortized as interest expense over the term of the new debt instrument.

See Note 10 for further discussion of the Company's accounting for its outstanding debt, revolving credit facility and related issuance costs.

Business Combinations

The Company generally allocates the purchase consideration to the tangible assets acquired and liabilities assumed and intangible assets acquired based on their estimated fair values. The purchase price is, generally, determined based on the fair value of the assets transferred, liabilities assumed and equity interests issued, after considering any transactions that are separate from the business combination. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. The Company applies significant assumptions, estimates and judgments in determining the fair value of assets acquired and liabilities assumed on the acquisition date, especially with respect to intangible assets and contingent liabilities. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired customer bases, acquired technology and acquired trade names, useful lives, royalty rates and discount rates. Any adjustments to provisional amounts that are identified during the measurement period are recorded in the reporting period in which the adjustment amounts are determined. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

For a given acquisition, the Company may identify certain pre-acquisition contingencies as of the acquisition date and may extend its review and evaluation of these pre-acquisition contingencies throughout the measurement period in order to obtain sufficient information to assess whether the Company includes these contingencies as a part of the fair value estimates of assets acquired and liabilities assumed and, if so, to determine their estimated amounts.

If the Company cannot reasonably determine the fair value of a pre-acquisition contingency (non-income tax-related) by the end of the measurement period, which is generally the case given the nature of such matters, the Company will recognize an asset or a liability for such pre-acquisition contingency if: (i) it is probable that an asset existed or a liability had been assumed at the acquisition date and (ii) the amount of the asset or liability can be reasonably estimated. Subsequent to the measurement period, changes in the Company's estimates of such contingencies will affect earnings and could have a material effect on its results of operations and financial position.

In addition, uncertain tax positions and tax-related valuation allowances assumed in connection with a business combination are initially estimated as of the acquisition date. The Company reevaluates these items based upon facts and circumstances that existed as of the acquisition date with any adjustments to its preliminary estimates being recorded to goodwill, provided that the Company is within the measurement period. Subsequent to the measurement period, changes to these uncertain tax positions and tax-related valuation allowances will affect the Company's provision for income taxes in its condensed consolidated statements of operations and comprehensive income and could have a material impact on its results of operations and financial position.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASC 848 contains optional expedients and exceptions for applying GAAP to debt, contracts, hedging relationships and other transactions affected by reference rate reform. The provisions of ASC 848 must be applied to all contracts that are accounted for under a Topic, Subtopic or Industry Subtopic for all transactions other than derivatives, which may be applied at a hedging relationship level. Originally, the guidance was effective for fiscal years beginning after January 1, 2021, including interim periods within those fiscal years. However, in response to the deferral of the cessation date for certain overnight LIBOR measures, the FASB issued ASU 2022-06 on December 21, 2022, which extends the sunset date of Topic 848 to December 31, 2024. The Company's 2020 Credit Agreement provides for a \$750 million revolving credit facility and a letter of credit sublimit of \$20 million, with interest rates previously benchmarked to LIBOR. The Company adopted this accounting pronouncement with the execution of the First Amendment to the 2020 Credit Agreement in May 2023. See Note 10 for further discussion of the Company's accounting for its outstanding debt, revolving credit facility and related issuance costs. This guidance provides an optional practical expedient that allows qualifying modifications to be

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accounted for as a debt modifications rather than be analyzed under existing guidance to determine if the modification should be accounted for as a debt extinguishment. In adopting this accounting standard, we have elected to apply this optional expedient. Adopting this accounting standard did not have a material impact on the Company's condensed consolidated financial statements and related disclosures.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregated Revenue

The Company provides information, analytics and online marketplaces to the commercial real estate industry, hospitality industry, residential industry and related professionals. Revenues by operating segment and type of service consist of the following (in thousands):

	Three Months Ended June 30,					
	2023			2022		
	North America	International	Total	North America	International	Total
CoStar	\$ 219,573	\$ 9,596	\$ 229,169	\$ 197,380	\$ 9,186	\$ 206,566
Information Services	32,213	9,708	41,921	30,511	7,991	38,502
Multifamily	224,291	—	224,291	182,359	—	182,359
LoopNet	63,268	2,295	65,563	54,603	1,694	56,297
Residential	12,708	—	12,708	20,154	—	20,154
Other Marketplaces	32,254	—	32,254	32,430	—	32,430
Total revenues	\$ 584,307	\$ 21,599	\$ 605,906	\$ 517,437	\$ 18,871	\$ 536,308

	Six Months Ended June 30,					
	2023			2022		
	North America	International	Total	North America	International	Total
CoStar	\$ 435,386	\$ 18,796	\$ 454,182	\$ 386,484	\$ 18,731	\$ 405,215
Information Services	64,313	19,237	83,550	60,782	14,935	75,717
Multifamily	434,988	—	434,988	357,836	—	357,836
LoopNet	124,447	4,353	128,800	107,291	3,453	110,744
Residential	25,861	—	25,861	38,214	—	38,214
Other Marketplaces	62,891	—	62,891	64,407	—	64,407
Total revenues	\$ 1,147,886	\$ 42,386	\$ 1,190,272	\$ 1,015,014	\$ 37,119	\$ 1,052,133

Deferred Revenue

Deferred revenue as of June 30, 2023 and December 31, 2022 were as follows (in thousands):

Balance	Balance Sheet Caption	June 30, 2023	December 31, 2022
Current portion	Deferred revenue	\$ 113,231	\$ 103,567
Non-current portion	Lease and other long-term liabilities	227	215
Total deferred revenue		\$ 113,458	\$ 103,782

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Changes in deferred revenue for the period were as follows (in thousands):

Balance at December 31, 2022	\$ 103,782
Revenues recognized in the current period from the amounts in the beginning balance	(82,503)
New deferrals, net of amounts recognized in the current period	91,376
Effects of foreign currency	803
Balance at June 30, 2023	<u>\$ 113,458</u>

Contract Assets

Contract assets are generated when contractual billing schedules differ from revenue recognition timing and represent a conditional right to consideration for satisfied performance obligations that becomes a receivable when the conditions are satisfied. Contract assets as of June 30, 2023 and December 31, 2022 were as follows (in thousands):

Balance	Balance Sheet Caption	June 30, 2023	December 31, 2022
Current portion	Prepaid expenses and other current assets	\$ 4,786	\$ 3,953
Non-current portion	Deposits and other assets	8,541	8,464
Total contract assets		<u>\$ 13,327</u>	<u>\$ 12,417</u>

Revenues recognized from contract assets for the three and six months ended June 30, 2023 were \$0.4 million and \$0.9 million, respectively. Revenues recognized from contract assets for the three and six months ended June 30, 2022 were negligible.

Unsatisfied Performance Obligations

Remaining contract consideration for which revenue has not been recognized due to unsatisfied performance obligations was approximately \$406 million at June 30, 2023, which the Company expects to recognize over the next five years. This amount does not include contract consideration for contracts with a duration of one year or less.

Commissions

Commissions expense is included in selling and marketing expense in the Company's condensed consolidated statements of operations. Commissions expense activity for the three and six months ended June 30, 2023 and 2022 was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Commissions incurred	\$ 46,718	\$ 38,423	\$ 92,331	\$ 75,238
Commissions capitalized in the current period	(32,747)	(28,326)	(65,028)	(54,155)
Amortization of deferred commissions costs	23,378	18,413	45,267	35,996
Total commissions expense	<u>\$ 37,349</u>	<u>\$ 28,510</u>	<u>\$ 72,570</u>	<u>\$ 57,079</u>

The Company determined that no deferred commissions were impaired as of June 30, 2023 and 2022.

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4. ALLOWANCE FOR CREDIT LOSSES

The following tables detail the activity related to the allowance for credit losses for trade receivables by portfolio segment (in thousands):

Six Months Ended June 30, 2023						
	CoStar	Information Services	Multifamily	LoopNet	Other Marketplaces	Total
Beginning balance at December 31, 2022	\$ 4,510	\$ 1,051	\$ 4,347	\$ 1,396	\$ 891	\$ 12,195
Current-period provision (release) for expected credit losses	8,781	504	2,092	2,603	(42)	13,938
Write-offs charged against the allowance, net of recoveries and other	(8,072)	(104)	(910)	(2,005)	—	(11,091)
Ending balance at June 30, 2023	<u>\$ 5,219</u>	<u>\$ 1,451</u>	<u>\$ 5,529</u>	<u>\$ 1,994</u>	<u>\$ 849</u>	<u>\$ 15,042</u>
Six Months Ended June 30, 2022						
	CoStar	Information Services	Multifamily	LoopNet	Other Marketplaces	Total
Beginning balance at December 31, 2021	\$ 5,380	\$ 1,820	\$ 3,393	\$ 1,968	\$ 813	\$ 13,374
Current-period provision (release) for expected credit losses	3,422	(1,063)	2,676	1,805	50	6,890
Write-offs charged against the allowance, net of recoveries and other	(4,708)	9	(2,849)	(3,078)	—	(10,626)
Ending balance at June 30, 2022	<u>\$ 4,094</u>	<u>\$ 766</u>	<u>\$ 3,220</u>	<u>\$ 695</u>	<u>\$ 863</u>	<u>\$ 9,638</u>

Credit loss expense is included in general and administrative expenses on the condensed consolidated statements of operations. Credit loss expense related to contract assets was not material for the six months ended June 30, 2023 and 2022. The majority of the Residential portfolio segment revenue is e-commerce-based and does not result in accounts receivable.

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5. ACQUISITIONS

Business Immo

In April 2022, the Company acquired Business Immo, a leading commercial real estate news service provider in France, for €5.8 million (\$6.3 million), net of cash acquired, and the assumption of outstanding debt. As part of the Business Immo Acquisition, the Company recorded goodwill and intangible assets of \$7.1 million and \$3.9 million, respectively. The net assets of Business Immo were recorded at their estimated fair value. The Company retired the assumed debt in the second quarter of 2022. The impact of the Business Immo Acquisition on the Company's revenue and net income in the condensed consolidated statements of operations for the three and six months ended June 30, 2023 and related pro forma financial information was not material.

6. INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. There is a three-tier fair value hierarchy, which categorizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of June 30, 2023 and December 31, 2022, the Company's financial assets comprise Level 1 cash equivalents with original maturities of three months or less in the amount of \$5.0 billion and \$4.8 billion, respectively. The Company had no Level 2 or Level 3 financial assets measured at fair value.

The Company holds other financial instruments, including cash deposits, accounts receivable, accounts payable, accrued expenses and Senior Notes. The carrying value for such financial instruments, other than the Senior Notes, each approximated their fair values as of June 30, 2023 and December 31, 2022. The estimated fair value of the Company's outstanding Senior Notes using quoted prices from the over-the-counter markets, considered Level 2 inputs, was \$0.8 billion as of June 30, 2023 and December 31, 2022.

7. LEASES

The Company has operating leases for its office facilities, data centers, and certain vehicles, as well as finance leases for office equipment. The Company's leases have remaining terms of less than one year to nine years. The leases contain various renewal and termination options. The period that is subject to an option to extend the lease is included in the lease term if it is reasonably certain that the option will be exercised. The period that is subject to an option to terminate the lease is included if it is reasonably certain that the option will not be exercised.

Lease costs related to the Company's operating leases included in the condensed consolidated statements of operations were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Operating lease costs:				
Cost of revenues	\$ 2,401	\$ 1,725	\$ 4,445	\$ 4,278
Software development	1,482	1,345	3,015	3,129
Selling and marketing (excluding customer base amortization)	3,928	1,931	7,480	4,941
General and administrative	945	4,258	2,030	5,911
Total operating lease costs	<u>\$ 8,756</u>	<u>\$ 9,259</u>	<u>16,970</u>	<u>\$ 18,259</u>

The impact of lease costs related to finance leases and short-term leases was not material for the three and six months ended June 30, 2023 and 2022.

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Supplemental balance sheet information related to operating leases was as follows (in thousands):

Balance	Balance Sheet Location	June 30, 2023	December 31, 2022
Operating lease liabilities		\$ 115,945	\$ 118,294
Less: imputed interest		(7,091)	(6,238)
Present value of lease liabilities		108,854	112,056
Less: current portion of lease liabilities	Lease liabilities	40,329	36,049
Long-term lease liabilities	Lease and other long-term liabilities	\$ 68,525	\$ 76,007
Weighted-average remaining lease term in years		3.8	3.6
Weighted-average discount rate		3.3 %	3.1 %

Balance sheet information related to finance leases was not material as of June 30, 2023 and December 31, 2022.

Supplemental cash flow information related to leases was as follows (in thousands):

	Six Months Ended June 30,	
	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows used in operating leases	\$ 19,382	\$ 19,111
ROU assets obtained in exchange for lease obligations:		
Operating leases	\$ 10,496	\$ 13,917

8. GOODWILL

The changes in the carrying amount of goodwill by operating segment consist of the following (in thousands):

	North America	International	Total
Goodwill, December 31, 2021	\$ 2,145,846	\$ 175,169	\$ 2,321,015
Acquisitions, including measurement period adjustments ⁽¹⁾	3,401	7,095	10,496
Effect of foreign currency translation	—	(16,752)	(16,752)
Goodwill, December 31, 2022	2,149,247	165,512	2,314,759
Effect of foreign currency translation	—	6,446	6,446
Goodwill, June 30, 2023	\$ 2,149,247	\$ 171,958	\$ 2,321,205

⁽¹⁾ North America goodwill recorded during the year ended December 31, 2022 relates to a measurement period adjustment for income taxes for Homes.com of \$3.4 million. International goodwill recorded in connection with the Business Immo Acquisition was \$7.1 million.

No impairments of the Company's goodwill were recognized during the three and six months ended June 30, 2023 and 2022.

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9. INTANGIBLE ASSETS

Intangible assets consist of the following (in thousands, except amortization period data):

	June 30, 2023	December 31, 2022	Weighted- Average Amortization Period (in years)
Acquired technology and data	\$ 40,202	\$ 40,422	5
Accumulated amortization	(24,270)	(20,693)	
Acquired technology and data, net	15,932	19,729	
Acquired customer base	466,403	464,242	10
Accumulated amortization	(309,209)	(287,051)	
Acquired customer base, net	157,194	177,191	
Acquired trade names and other intangible assets	247,907	247,361	13
Accumulated amortization	(126,011)	(114,975)	
Acquired trade names and other intangible assets, net	121,896	132,386	
Intangible assets, net	<u>\$ 295,022</u>	<u>\$ 329,306</u>	

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. No impairments of the Company's intangible assets were recognized during the six months ended June 30, 2023 and 2022. During the six months ended June 30, 2023, the Company removed \$0.5 million of intangible assets that were fully amortized from the acquired intangible assets and accumulated amortization, which had no net impact on the Company's financial results.

10. LONG-TERM DEBT

The table below presents the components of outstanding debt (in thousands):

	June 30, 2023	December 31, 2022
2.800% Senior Notes due July 15, 2030	\$ 1,000,000	\$ 1,000,000
2020 Credit Agreement, due July 1, 2025	—	—
Total face amount of long-term debt	1,000,000	1,000,000
Senior Notes unamortized discount and issuance costs	(10,142)	(10,790)
Long-term debt, net	<u>\$ 989,858</u>	<u>\$ 989,210</u>

Senior Notes

On July 1, 2020, the Company issued \$1.0 billion aggregate principal amount of 2.800% Senior Notes due July 15, 2030. The Senior Notes were sold to a group of financial institutions as initial purchasers who subsequently resold the Senior Notes to non-U.S. persons pursuant to Regulation S under the Securities Act, and to persons reasonably believed to be qualified institutional buyers pursuant to Rule 144A under the Securities Act at a purchase price equal to 99.921% of their principal amount. Interest on the Senior Notes is payable semi-annually in arrears on January 15 and July 15. The Senior Notes may be redeemed in whole or in part by the Company (a) at any time prior to April 15, 2030 at a redemption price equal to 100% of the principal amount of the Senior Notes, plus the Applicable Premium (as calculated in accordance with the indenture governing the Senior Notes), and any accrued and unpaid interest, if any, on the principal amount of Senior Notes being redeemed to, but excluding, the redemption date, and (b) on or after April 15, 2030 at a redemption price equal to 100% of the principal amount of the Senior Notes, plus any accrued and unpaid interest, if any, on the principal amount of Senior Notes being redeemed to,

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but excluding, the redemption date. The Company's obligations under the Senior Notes are guaranteed on a senior, unsecured basis by the Company's domestic wholly owned subsidiaries, and the indenture governing the Senior Notes contains covenants, events of default and other customary provisions with which the Company was in compliance as of June 30, 2023.

Revolving Credit Facility

On July 1, 2020, the Company entered into the 2020 Credit Agreement, which provides for a \$750 million revolving credit facility with a term of five years (maturing July 1, 2025) and a letter of credit sublimit of \$20 million from a syndicate of financial institutions as lenders and issuing banks. A commitment fee of 0.25% to 0.30% per annum, depending on the Total Leverage Ratio (defined in 2020 Credit Agreement), is payable quarterly in arrears based on the unused revolving commitment. The Company and the syndicate of lenders and issuing banks entered into the First Amendment of the 2020 Credit Agreement in May 2023, which replaced LIBOR as the reference rate with Term SOFR for U.S. dollar denominated borrowings, SONIA rates for Sterling denominated borrowings and EURIBOR for Euro denominated borrowings.

Borrowings under the 2020 Credit Agreement can be on a revolving basis or term basis, not to exceed the remaining term of the facility, and denominated in U.S. dollars, sterling, euros or other allowed currency at the Company's option, subject to a limit of \$250 million U.S. dollar equivalent for non-U.S. dollar denominated borrowings. Borrowings bear interest at a floating rate which can be, at the Company's option, either (a) an alternate base rate plus an applicable rate ranging from 0.50% to 1.25% or (b) a Term SOFR, SONIA rate or EURIBOR (with a floor of 0.0%) for the specified interest period plus an applicable rate ranging from 1.50% to 2.25%, in each case depending on the Company's Total Leverage Ratio (as defined in the 2020 Credit Agreement). Any borrowing with a Term SOFR reference rate includes an additional 0.10% credit spread adjustment.

Funds drawn down on the revolving credit facility pursuant to the 2020 Credit Agreement may be used for working capital and other general corporate purposes of the Company and its restricted subsidiaries. The obligations under the 2020 Credit Agreement are guaranteed by each of the Company's current and future direct or indirect wholly owned restricted domestic subsidiaries, other than certain excluded subsidiaries, in each case subject to certain exceptions, pursuant to guarantee agreements.

Subject to certain conditions, on no more than five occasions, the Company may request increases in the amount of revolving commitments and/or the establishment of term commitments under the 2020 Credit Agreement.

The 2020 Credit Agreement includes covenants, including ones that, subject to certain exceptions, restrict the ability of the Company and its subsidiaries to (i) merge and consolidate with other companies, (ii) incur indebtedness, (iii) grant liens or security interests on assets, (iv) make investments, acquisitions, loans or advances, (v) pay dividends and (vi) sell or otherwise transfer assets. As of June 30, 2023, the Company is in a Covenant Suspension Period. During any Covenant Suspension Period, the Company will not be subject to certain of these covenants such as restrictions on the ability to incur indebtedness. The 2020 Credit Agreement also requires the Company to maintain a Total Leverage Ratio (as defined in the 2020 Credit Agreement) not exceeding 4.50 to 1.00. The Company was in compliance with the covenants in the 2020 Credit Agreement as of June 30, 2023.

As of June 30, 2023, the Company had no amounts drawn under this facility.

The Company had \$2.2 million and \$2.7 million of deferred debt issuance costs as of June 30, 2023 and December 31, 2022, respectively, in connection with the 2020 Credit Agreement. These amounts are included in deposits and other assets on the Company's condensed consolidated balance sheets.

The Company recognized interest expense as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Interest on outstanding borrowings	\$ 7,000	\$ 7,000	\$ 14,000	\$ 14,000
Amortization of Senior Notes discount and issuance costs	600	590	1,197	1,178
Commitment fees and other	475	484	1,433	955
Total interest expense	<u>\$ 8,075</u>	<u>\$ 8,074</u>	<u>\$ 16,630</u>	<u>\$ 16,133</u>

COSTAR GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

11. INCOME TAXES

The income tax provision reflects an effective tax rate of approximately 24% and 23% for the three months ended June 30, 2023 and 2022, respectively, and 24% and 25% for the six months ended June 30, 2023 and 2022, respectively. The increase in the effective tax rate for the three months ended June 30, 2023 was primarily due to higher income before income taxes for the three months ended June 30, 2023. The decrease in the effective tax rate for the six months ended June 30, 2023 was primarily due to an increase in excess tax benefits for the six months ended June 30, 2023.

12. COMMITMENTS AND CONTINGENCIES

The following summarizes the Company's significant contractual obligations, including related payments due by period, as of June 30, 2023 (in thousands):

Year Ending December 31,	Operating lease obligations	Long-term debt principal payments	Long-term interest payments
Remainder of 2023	\$ 21,907	\$ —	\$ 14,000
2024	39,989	—	28,000
2025	21,457	—	28,000
2026	11,273	—	28,000
2027	9,403	—	28,000
Thereafter	11,916	1,000,000	84,000
Total	\$ 115,945	\$ 1,000,000	\$ 210,000

The Company leases office facilities under various non-cancelable operating leases. The leases contain various renewal options.

See Note 7 for further discussion of the Company's operating lease commitments.

Currently, and from time to time, the Company is involved in litigation incidental to the conduct of its business. The Company records a provision for a liability when it is both probable that a liability has been incurred and the amount can be reasonably estimated. While it is reasonably possible that an unfavorable outcome may occur as a result of one or more of the Company's current litigation matters, at this time, management has concluded that the resolutions of these matters are not expected to have a material effect on the Company's consolidated financial position, future results of operations or liquidity. Legal defense costs are expensed as incurred.

13. SEGMENT REPORTING

Segment Information

The Company manages its business geographically in two operating segments, with the primary areas of measurement and decision-making being North America, which includes the U.S. and Canada, and International, which primarily includes Europe, Asia-Pacific and Latin America. Management relies on an internal management reporting process that provides revenue and operating segment EBITDA. Management believes that operating segment EBITDA is an appropriate measure for evaluating the operational performance of the Company's operating segments. EBITDA is used by management to internally measure operating and management performance, and to evaluate the performance of the business. However, this measure should be considered in addition to, not as a substitute for or superior to, income from operations or other measures of financial performance prepared in accordance with GAAP.

COSTAR GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Summarized EBITDA information by operating segment consists of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
North America	\$ 104,614	\$ 138,527	\$ 201,270	\$ 294,489
International	595	1,481	1,787	3,949
Total EBITDA	<u>\$ 105,209</u>	<u>\$ 140,008</u>	<u>\$ 203,057</u>	<u>\$ 298,438</u>

The reconciliation of net income to EBITDA consists of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income	\$ 100,520	\$ 83,473	\$ 187,651	\$ 172,791
Amortization of acquired intangible assets in cost of revenues	7,536	7,937	14,600	15,035
Amortization of acquired intangible assets in operating expenses	10,440	14,878	21,057	30,970
Depreciation and other amortization	8,087	7,010	16,033	13,975
Interest (income) expense, net	(51,911)	3,399	(95,459)	11,117
Other income, net	(609)	(1,343)	(1,190)	(2,207)
Income tax expense	31,146	24,654	60,365	56,757
EBITDA	<u>\$ 105,209</u>	<u>\$ 140,008</u>	<u>\$ 203,057</u>	<u>\$ 298,438</u>

Summarized information by operating segment consists of the following (in thousands):

	June 30, 2023	December 31, 2022
Property and equipment, net:		
North America	\$ 356,058	\$ 320,209
International	3,397	1,041
Total property and equipment, net	<u>\$ 359,455</u>	<u>\$ 321,250</u>
Goodwill:		
North America	\$ 2,149,247	\$ 2,149,247
International	171,958	165,512
Total goodwill	<u>\$ 2,321,205</u>	<u>\$ 2,314,759</u>
Assets:		
North America	\$ 8,418,083	\$ 8,146,239
International	273,591	256,231
Total assets	<u>\$ 8,691,674</u>	<u>\$ 8,402,470</u>
Liabilities:		
North America	\$ 1,529,531	\$ 1,486,237
International	61,071	46,112
Total liabilities	<u>\$ 1,590,602</u>	<u>\$ 1,532,349</u>

COSTAR GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

14. SUBSEQUENT EVENTS

The Company has evaluated subsequent events and transactions that occurred after the balance sheet date up to the date that the condensed consolidated financial statements were issued. Based upon this review, the company did not identify any material subsequent events that would have required adjustment or disclosure in the condensed consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains "forward-looking statements," including statements about our beliefs and expectations. There are many risks and uncertainties that could cause actual results to differ materially from those discussed in the forward-looking statements. Potential factors that could cause actual results to differ materially from those discussed in any forward-looking statements include, but are not limited to, those stated under the heading "Cautionary Statement Concerning Forward-Looking Statements" at the end of this Item 2 and "Risk Factors" in Item 1A of Part I of our 2022 Form 10-K, as well as those described from time to time in our filings with the SEC.

All forward-looking statements are based on information available to us on the date of this filing, and we assume no obligation to update such statements, whether as a result of new information, future events or otherwise, except as required by law. The following discussion should be read in conjunction with our 2022 Form 10-K, our subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and other filings with the SEC and the condensed consolidated financial statements and related notes included in this Report.

Overview

CoStar Group, founded in 1987, is a leading provider of online real estate marketplaces, information and analytics in the U.S. and U.K., based on the fact that we own and operate leading online marketplaces for commercial real estate and apartment listings in the U.S., based on the numbers of unique visitors and site visits per month; provide more information, analytics and marketing services than any of our competitors; offer the most comprehensive commercial real estate database available and have the largest commercial real estate research department in the industry. We have created and compiled a standardized platform of information, analytics and online marketplace services where industry professionals and consumers of commercial real estate, including apartments, and the related business communities, can continuously interact and facilitate transactions by efficiently accessing and exchanging accurate and standardized real estate-related information. Our service offerings span all commercial property types, including office, retail, industrial, multifamily, land, mixed-use and hospitality. We also offer online platforms that manage workflow and marketing for residential real estate agents and brokers and provide portals for homebuyers to view residential property listings.

We manage our business geographically in two operating segments, with our primary areas of measurement and decision-making being North America, which includes the U.S. and Canada, and International, which primarily includes Europe, Asia-Pacific and Latin America.

Our services are typically distributed to our clients under subscription-based license agreements that typically renew automatically, a majority of which have a term of at least one year. Upon renewal, many of the subscription contract rates may change in accordance with contract provisions or as a result of contract renegotiations. To encourage clients to use our services regularly, we generally charge a fixed monthly amount for our subscription-based services rather than charging fees based on actual platform usage or number of paid clicks. Depending on the type of service, contract rates are generally based on one or more of the following factors: the number of sites, number of users, organization size, the client's business focus, the client's geographic location, the number of properties reported on or analyzed, the number and types of services to which a client subscribes, the number of properties a client advertises and the prominence and placement of a client's advertised properties in the search results. Our subscription clients generally pay contract fees on a monthly basis, but in some cases may pay us on a quarterly or annual basis. Our transaction-based services primarily consist of auction fees from our Ten-X online auction platform for commercial real estate, which are generally calculated as a percentage of the final sales price for the commercial real estate property sold and recognized as revenue upon the successful closure of an auction. Other transaction-based services are described by service offering below.

Services

Our portfolio of information, analytics and online marketplaces is branded and marketed to our customers and marketplace end users under the primary brands of CoStar®, LoopNet®, Apartments.com®, STR®, Ten-X®, BizBuySell®, Land.com®, Homesnap®, and Homes.com®. Our services are accessible via the internet and through our mobile applications. Our services are primarily derived from a database of building-specific information and offer customers specialized tools for accessing, analyzing and using our information. Over time, we have enhanced and expanded, and we expect to continue to enhance and expand, our existing information, analytics and online marketplace services. We have developed and we expect to continue to develop additional services leveraging our database to meet the needs of our existing customers as well as potential new categories of customers.

Our principal information, analytics and online marketplace services are described in the following paragraphs by type of services:

CoStar

CoStar is our subscription-based integrated platform for commercial real estate intelligence, which includes information about office, industrial, retail, multifamily, hospitality and student housing properties, properties for sale, comparable sales, tenants, space available for lease, industry professionals and their business relationships, industry news and market status and provides lease analytical and risk management capabilities. CoStar's revenue growth rate for the six months ended June 30, 2023 slowed compared to the revenue growth rate for the six months ended June 30, 2022. We expect CoStar's revenue growth rate for the year ended December 31, 2023 to slow compared to the revenue growth rate for the year ended December 31, 2022 as a result of less benefit from customer upgrades as the global product upgrade campaign is substantially complete, a decline in the sales levels to brokers and lower inflation-based price adjustments.

Information Services

We provide real estate and lease management technology solutions, including lease administration, lease accounting and abstraction services, through our CoStar Real Estate Manager service offerings, as well as portfolio and debt analysis, management and reporting capabilities through our CoStar Risk Analytics service offerings. We also provide benchmarking and analytics for the hospitality industry both on a subscription basis and an ad hoc basis. We earn revenue on ad hoc transactions as reports or data are delivered to customers. We provide information services internationally, through our Business Immo, Belbex and Thomas Daily businesses in France, Spain and Germany, respectively. Information Services' revenue growth rate for the six months ended June 30, 2023 accelerated compared to the revenue growth rate for the six months ended June 30, 2022 as a result of inclusion of the revenue from the Business Immo Acquisition and increased sales of STR products. We expect the Information Services revenue growth rate for the year ended December 31, 2023 to slow compared to the revenue growth rate for the year ended December 31, 2022 as a result of lower price adjustments on CoStar Real Estate Manager.

Multifamily

Apartments.com is the flagship brand of our apartment marketing network of subscription-based advertising services and provides property management companies and landlords with a comprehensive advertising destination for their available rental units and offers renters a platform for searching for available rentals. This network also earns transaction-based revenue primarily from providing online tenant applications, including background and credit checks and rental payment processing. Multifamily's revenue growth rate for the six months ended June 30, 2023 accelerated compared to the revenue growth rate for the six months ended June 30, 2022 as a result of higher sales volumes driven by increases in pricing on renewals and an increase in the number of properties listed on our network. We expect the Multifamily revenue growth rate for the year ended December 31, 2023 to accelerate compared to the revenue growth rate for the year ended December 31, 2022, primarily due to expected increases in sales levels from bringing additional properties on the network and customers upgrading ad packages as vacancy rates have risen.

LoopNet

Our LoopNet network of commercial real estate websites offers subscription-based, online marketplace services that enable commercial property owners, landlords and real estate agents working on their behalf to advertise properties for sale or for lease and to submit detailed information about property listings. Commercial real estate agents, buyers and tenants use the LoopNet network of online marketplace services to search for available property listings that meet their criteria. LoopNet's revenue growth rate for the six months ended June 30, 2023 accelerated compared to the revenue growth rate for the six months ended June 30, 2022 due to an increase in the average price for listings. We expect LoopNet's revenue growth rate for the year ended December 31, 2023 to accelerate compared to the revenue growth rate for the year ended December 31, 2022 due to increased sales value per listing.

Residential

The acquisitions of Homes.com and Homesnap enabled us to expand our offerings to the residential for sale market. Homes.com is a homes for sale listings site. Homesnap is an online and mobile software platform that provides residential real estate professionals access to applications that manage residential real estate agent workflow and marketing campaigns delivered on third-party platforms. Homesnap also receives transaction-based revenue for short-term advertising delivered on third-party platforms. Residential's revenues for the six months ended June 30, 2023 decreased compared to the six months ended June 30, 2022 due to the discontinuation of certain products and services that were inconsistent with our long-term business strategy, partially offset by increased sales of Homesnap products and services. We expect Residential's revenues for

the year ended December 31, 2023 to decrease compared to the year ended December 31, 2022 due to the discontinuation of certain non-strategic products and services.

Other Marketplaces

Our other marketplaces include Ten-X, an online auction platform for commercial real estate, our BizBuySell network of sites and our Land.com network of sites. The BizBuySell network provides online marketplaces for businesses and franchises for sale, and our Land.com Network provides online marketplaces for rural lands for sale. Other Marketplaces' revenues for the six months ended June 30, 2023 decreased compared to the six months ended June 30, 2022 due to lower Ten-X transaction revenue. We expect other marketplaces revenue for the year ended December 31, 2023 to decrease compared to the year ended December 31, 2022, due to lower expected Ten-X transaction revenue, partially offset by growth in other products.

Subscription-based Services

The majority of our revenue is generated from service offerings that are distributed to our clients under subscription-based agreements that typically renew automatically and have a term of at least one year. We recognize subscription revenues on a straight-line basis over the life of the contract.

For the three months ended June 30, 2023 and 2022, our annualized net new bookings of subscription-based services on all contracts were \$82 million and \$84 million, respectively. Net new bookings is calculated based on the annualized amount of change in our sales bookings resulting from new subscription-based contracts, changes to existing subscription-based contracts and cancellations of subscription-based contracts for the period reported. Net new bookings is calculated on all subscription-based contracts without regard to contract term. Net new bookings is considered an operating metric that is an indicator of future subscription revenue growth and is also used as a metric of sales force productivity by us and investors. However, information regarding net new bookings is not comparable to, nor should it be substituted for, an analysis of our revenues over time. Revenues from our subscription-based contracts were approximately 95% and 93% of total revenues for the three months ended June 30, 2023 and 2022, respectively. The increase was due to increased sales in our multifamily subscription products.

For the trailing twelve months ended June 30, 2023 and 2022, our contract renewal rates for existing company-wide CoStar Group subscription-based services for contracts with a term of at least one year were approximately 90% and 91%, respectively, and, therefore, our cancellation rates for those services for the same periods were approximately 10% and 9%, respectively. Contract renewal rates are calculated on all subscription-based contracts with a term of at least one year. Our contract renewal rate is a quantitative measurement that is typically closely correlated with our revenue results. As a result, we believe that the rate may be a reliable indicator of short-term and long-term performance absent extraordinary circumstances. Our trailing twelve-month contract renewal rate may decline as a result of negative economic conditions, consolidations among our clients, reductions in customer spending or decreases in our customer base. Revenues from our subscription-based contracts with a term of at least one year were approximately 81% and 78% of total revenues for the trailing twelve months ended June 30, 2023 and 2022, respectively. The increase was primarily due to increased sales of CoStar and multifamily subscription products.

Development, Investments and Expansion

We plan to continue to invest in our business and our services, evaluate strategic growth opportunities and pursue our key priorities as described below. We are committed to supporting, improving and enhancing our information, analytics and online marketplace solutions, including expanding and improving our offerings for our client base and site users, including property owners, property managers, buyers, commercial tenants and residential renters and buyers. We expect to continue our software development efforts to improve existing services, introduce new services, integrate and cross-sell services, integrate recently completed acquisitions and expand and develop supporting technologies for our research, sales and marketing organizations. We may reevaluate our priorities as economic conditions continue to evolve.

Our key priorities for the remainder of 2023 currently include:

- Continuing to develop and invest in the Homes.com residential marketplace. Our residential strategy involves creating new and improved tools for residential agents and brokers and to help homebuyers find a new home and connect with the agents of their choosing. We plan to increase our residential marketing investment over the course of the year to build traffic on the website.
- Continuing to invest in our LoopNet marketplace and international business. We plan to invest in additional sales capabilities and increase marketing investment to accelerate revenue growth in LoopNet. This includes further expansion of our LoopNet brand across Europe.

- Continuing to invest in CoStar, including:
 - Enhancing benchmarking capabilities. We continue to integrate the STR products into our core platform. We have launched our STR benchmarking product in CoStar. This product combines the legacy STAR report with enhanced tools to allow users to perform ad hoc analysis and perform additional research with CoStar's data capabilities. We plan to continue transitioning customers from legacy STR products to the CoStar-based product.
 - Enhancing analytics capabilities. We are adding information on commercial property investment funds and linking property data to allow fund investors to perform detailed analysis on their property portfolios directly in the CoStar platform and have launched an enhancement to our Tenant products which allows users to query individual tenant occupiers to see aggregate rented locations, types of buildings occupied, building details, financial information for the tenant and credit risk.

We expect our investment in these priorities, and the full-year impact realized in 2023 from an increase in our sales force which occurred primarily in the second half of 2022, will increase our selling and marketing expense and reduce our income from operations for the year ended December 31, 2023 compared to the year ended December 31, 2022. We intend to continue to assess the need for additional investments in our business to develop and distribute new services and functionality within our current platform or expand the reach of, or otherwise improve, our current service offerings. Any future product development or expansion of services, combination and coordination of services or elimination of services or corporate expansion, development or restructuring efforts could reduce our profitability and increase our capital expenditures. Any new investments, changes to our service offerings or other unforeseen events could cause us to experience reduced revenues or generate losses and negative cash flow from operations in the future. Any development efforts must comply with our credit facility, which contains restrictive covenants that restrict our operations and use of our cash flow and may prevent us from taking certain actions that we believe could increase our profitability or otherwise enhance our business.

Impacts of Current Economic Conditions

In response to the concerns over inflation risk, the U.S. Federal Reserve has raised its target for interest rates in all four quarters of 2022 and the first and second quarters of 2023 and the Federal Funds rate was 5.25% at June 30, 2023. In June 2023, the Federal Reserve determined to maintain interest rates for the purpose of assessing additional incoming information and its implications for monetary policy. The Federal Open Market Committee signaled that the federal reserve will maintain a sufficiently restrictive monetary policy in order to return to a modest inflation rate over time and indicated that further rate increases are likely to be necessary this year. Further, the COVID-19 pandemic has created significant economic volatility, uncertainty and disruption around the world. While the impacts of the current economic conditions and COVID-19 pandemic continue to evolve, they have not materially affected our condensed consolidated financial statements as of and for the six months ended June 30, 2023 or consolidated financial statements for 2022. It is currently unclear how the commercial real estate industry will ultimately be impacted by the COVID-19 pandemic as businesses formulate and execute plans for employees to return to the office, implement hybrid work arrangements – allowing work from the office or home, or switch to all work from home, or by the current economic conditions. These activities may result in reduced demand for office space and rising interest rates may reduce demand for all types of real estate. If the demand for office space or other real estate decreases significantly, there could be a downturn in the commercial real estate market that may materially adversely affect many of our clients. A depressed commercial real estate market would have a negative impact on our core customer base, which could impact our customers' ability to subscribe and pay for our services and reduce demand for our services. Reduced demand and increased cancellations could cause our revenues or our revenue growth rates to decline and reduce our profitability.

Non-GAAP Financial Measures

We prepare and publicly release quarterly unaudited financial statements prepared in accordance with GAAP. We also disclose and discuss certain non-GAAP financial measures in our public releases, investor conference calls and filings with the SEC. The non-GAAP financial measures that we may disclose include EBITDA, adjusted EBITDA, adjusted EBITDA margin, non-GAAP net income and non-GAAP net income per diluted share. We typically disclose EBITDA on a consolidated and an operating segment basis in our earnings releases, investor conference calls and filings with the SEC. Adjusted EBITDA is different from EBITDA because we further adjust EBITDA for stock-based compensation expense, acquisition- and integration-related costs, restructuring costs and settlements and impairments incurred outside our ordinary course of business. Adjusted EBITDA margin represents adjusted EBITDA divided by revenues for the period. Non-GAAP net income is determined by adjusting our net income for stock-based compensation expense, acquisition- and integration-related costs, restructuring costs, settlement and impairment costs incurred outside our ordinary course of business and loss on debt extinguishment, as well as amortization of acquired intangible assets and other related costs, and then subtracting an assumed provision for income taxes. Non-GAAP net income per diluted share is a non-GAAP financial measure that represents non-

GAAP net income divided by the number of diluted shares outstanding for the period used in the calculation of GAAP net income per diluted share.

We may disclose adjusted EBITDA, adjusted EBITDA margin, non-GAAP net income and non-GAAP net income per diluted share on a consolidated basis in our earnings releases, investor conference calls and filings with the SEC. The non-GAAP financial measures that we use may not be comparable to similarly titled measures reported by other companies. Also, in the future, we may disclose different non-GAAP financial measures in order to help our investors meaningfully evaluate and compare our results of operations to our previously reported results of operations or to those of other companies in our industry.

We view EBITDA, adjusted EBITDA, adjusted EBITDA margin, non-GAAP net income and non-GAAP net income per diluted share as operating performance measures. We believe that the most directly comparable GAAP financial measure to EBITDA, adjusted EBITDA and non-GAAP net income is net income. We believe the most directly comparable GAAP financial measures to non-GAAP net income per diluted share and adjusted EBITDA margin are net income per diluted share and net income divided by revenues, respectively. In calculating EBITDA, adjusted EBITDA, adjusted EBITDA margin, non-GAAP net income and non-GAAP net income per diluted share, we exclude from net income the financial items that we believe should be separately identified to provide additional analysis of the financial components of the day-to-day operation of our business. We have outlined below the type and scope of these exclusions and the material limitations on the use of these non-GAAP financial measures as a result of these exclusions. EBITDA, adjusted EBITDA, adjusted EBITDA margin, non-GAAP net income and non-GAAP net income per diluted share are not measurements of financial performance under GAAP and should not be considered as a measure of liquidity, as an alternative to net income or as an indicator of any other measure of performance derived in accordance with GAAP. Investors and potential investors in our securities should not rely on EBITDA, adjusted EBITDA, adjusted EBITDA margin, non-GAAP net income and non-GAAP net income per diluted share as a substitute for any GAAP financial measure, including net income and net income per diluted share. In addition, we urge investors and potential investors in our securities to carefully review the GAAP financial information included as part of our Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q that are filed with the SEC, as well as our quarterly earnings releases, and compare the GAAP financial information with our EBITDA, adjusted EBITDA, adjusted EBITDA margin, non-GAAP net income and non-GAAP net income per diluted share.

EBITDA, adjusted EBITDA, adjusted EBITDA margin, non-GAAP net income and non-GAAP net income per diluted share may be used by management to internally measure our operating and management performance and may be used by investors as supplemental financial measures to evaluate the performance of our business. We believe that these non-GAAP measures, when viewed with our GAAP results and accompanying reconciliations, provide additional information to investors that is useful to understand the factors and trends affecting our business without the impact of certain acquisition-related items. We have spent more than 30 years building our database of commercial real estate information and expanding our markets and services partially through acquisitions of complementary businesses. Due to these acquisitions, our net income has included significant charges for amortization of acquired intangible assets, depreciation and other amortization, acquisition- and integration-related costs, restructuring costs and loss on debt extinguishment. Adjusted EBITDA, adjusted EBITDA margin, non-GAAP net income and non-GAAP net income per diluted share exclude these charges and provide meaningful information about the operating performance of our business, apart from charges for amortization of acquired intangible assets, depreciation and other amortization; acquisition- and integration-related costs; restructuring costs and settlement and impairment costs incurred outside our ordinary course of business. We believe the disclosure of non-GAAP measures can help investors meaningfully evaluate and compare our performance from quarter to quarter and from year to year without the impact of these items. We also believe the non-GAAP measures we disclose are measures of our ongoing operating performance because the isolation of non-cash charges, such as amortization and depreciation, and other items, such as interest income or expense, net, other income or expense, net, income taxes, stock-based compensation expenses, acquisition- and integration-related costs, restructuring costs, loss on debt extinguishment and settlement and impairment costs incurred outside our ordinary course of business, provides additional information about our cost structure, and, over time, helps track our operating progress. In addition, investors, securities analysts and others have regularly relied on EBITDA and may rely on adjusted EBITDA, adjusted EBITDA margin, non-GAAP net income or non-GAAP net income per diluted share to provide a financial measure by which to compare our operating performance against that of other companies in our industry.

Set forth below are descriptions of financial items that have been excluded from net income to calculate EBITDA and the material limitations associated with using this non-GAAP financial measure as compared to net income:

- Amortization of acquired intangible assets in cost of revenues may be useful for investors to consider because it represents the diminishing value of any acquired trade names and other intangible assets and the use of our acquired technology, which is one of the sources of information for our database of commercial real estate information. We do not believe these charges necessarily reflect the current and ongoing cash charges related to our operating cost structure.

- Amortization of acquired intangible assets in operating expenses may be useful for investors to consider because it represents the estimated attrition of our acquired customer base. We do not believe these charges necessarily reflect the current and ongoing cash charges related to our operating cost structure.
- Depreciation and other amortization may be useful for investors to consider because they generally represent the wear and tear on our property and equipment used in our operations. We do not believe these charges necessarily reflect the current and ongoing cash charges related to our operating cost structure.
- The amount of interest income or expense, net and other income or expense, net, we generate and incur may be useful for investors to consider and may result in current cash inflows and outflows. However, we do not consider the amount of interest income or expense, net, and other income or expense, net, to be a representative component of the day-to-day operating performance of our business.
- Income tax expense may be useful for investors to consider because it generally represents the taxes which may be payable for the period and the change in deferred income taxes during the period and may reduce the amount of funds otherwise available for use in our business. However, we do not consider the amount of income tax expense to be a representative component of the day-to-day operating performance of our business.
- The amount of loss on our debt extinguishment may be useful for investors to consider because it generally represents losses from the early extinguishment of debt. However, we do not consider the amount of the loss on debt extinguishment to be a representative component of the day-to-day operating performance of our business.

Set forth below are descriptions of additional financial items that have been excluded from EBITDA to calculate adjusted EBITDA and the material limitations associated with using this non-GAAP financial measure as compared to net income:

- Stock-based compensation expense may be useful for investors to consider because it represents a portion of the compensation of our employees and executives. Determining the fair value of the stock-based instruments involves a high degree of judgment and estimation and the expenses recorded may bear little resemblance to the actual value realized upon the future exercise or termination of the related stock-based awards. Therefore, we believe it is useful to exclude stock-based compensation in order to better understand the long-term performance of our core business.
- The amount of acquisition- and integration-related costs incurred may be useful for investors to consider because such costs generally represent professional service fees and direct expenses related to acquisitions. Because we do not acquire businesses on a predictable cycle, we do not consider the amount of acquisition- and integration-related costs to be a representative component of the day-to-day operating performance of our business.
- The amount of settlement and impairment costs incurred outside of our ordinary course of business may be useful for investors to consider because they generally represent gains or losses from the settlement of litigation matters or impairments on acquired intangible assets. We do not believe these charges necessarily reflect the current and ongoing cash charges related to our operating cost structure.
- The amount of restructuring costs incurred may be useful for investors to consider because they generally represent costs incurred in connection with a change in a contract or a change in the makeup of our properties or personnel. Because we do not carry out restructuring activities on a predictable cycle, we do not consider the amount of restructuring-related costs to be a representative component of the day-to-day operating performance of our business.

The financial items that have been excluded from our net income to calculate non-GAAP net income and non-GAAP net income per diluted share are amortization of acquired intangible assets and other related costs, stock-based compensation, acquisition- and integration-related costs, restructuring and related costs and settlement and impairment costs incurred outside our ordinary course of business. These items are discussed above with respect to the calculation of adjusted EBITDA together with the material limitations associated with using this non-GAAP financial measure as compared to net income. In addition to these exclusions from net income, we subtract an assumed provision for income taxes to calculate non-GAAP net income. In both 2023 and 2022, we assumed a 26% tax rate, which approximates our historical long-term statutory corporate tax rate, excluding the impact of discrete items.

We compensate for the above-described limitations of using non-GAAP measures by using a non-GAAP measure only to supplement our GAAP results and to provide additional information that is useful to investors to understand the factors and trends affecting our business.

See Note 13 of the Notes to Condensed Consolidated Financial Statements included in Part I of this Report for the reconciliation of our net income to our EBITDA.

Results of Operations

Three Months Ended June 30, 2023 Compared to Three Months Ended June 30, 2022

The following table compares our selected consolidated results of operations for the three months ended June 30, 2023 and 2022 (in thousands, except percentages):

	Three Months Ended June 30,		Increase (Decrease) (\$)	Increase (Decrease) (%)
	2023	2022		
Revenues:				
CoStar	\$ 229,169	\$ 206,566	\$ 22,603	11 %
Information Services	41,921	38,502	3,419	9
Multifamily	224,291	182,359	41,932	23
LoopNet	65,563	56,297	9,266	16
Residential	12,708	20,154	(7,446)	(37)
Other Marketplaces	32,254	32,430	(176)	(1)
Total revenues	605,906	536,308	69,598	13
Cost of revenues	112,362	100,971	11,391	11
Gross profit	493,544	435,337	58,207	13
Operating expenses:				
Selling and marketing (excluding customer base amortization)	250,026	181,344	68,682	38
Software development	63,369	51,587	11,782	23
General and administrative	90,563	77,345	13,218	17
Customer base amortization	10,440	14,878	(4,438)	(30)
Total operating expenses	414,398	325,154	89,244	27
Income from operations	79,146	110,183	(31,037)	(28)
Interest income (expense), net	51,911	(3,399)	55,310	NM
Other income, net	609	1,343	(734)	(55)
Income before income taxes	131,666	108,127	23,539	22
Income tax expense	31,146	24,654	6,492	26
Net income	\$ 100,520	\$ 83,473	\$ 17,047	20

NM - Not meaningful

Revenues. Revenues increased \$70 million, or 13%, to \$606 million. The increase in our revenues included:

- an increase in Multifamily revenues of \$42 million, or 23%, due to higher sales volume driven by increases in pricing on renewals and an increase in the number of properties listed on our network,
- an increase in CoStar revenues of \$23 million, or 11%, due to higher sales volume driven by the impact of annual price increases and customer upgrades on contract renewals, as well as an increase in subscribers,
- an increase in LoopNet revenues of \$9 million, or 16%, due to an increase in the average price for listings,
- an increase in Information Services revenues of \$3 million, or 9%, primarily attributable to an increase of \$2 million in CoStar Real Estate Manager revenues and an increase of \$1 million in STR sales and
- a decrease in Residential revenues of \$7 million, or 37%, due to the discontinuation of certain products and services that were inconsistent with our long-term business strategy.

Gross Profit. Gross profit increased \$58 million, or 13%, to \$494 million, and the gross profit margin was consistent at 81%. The increase in gross profit was due to higher revenues partially offset by an increase in cost of revenues. Cost of

revenues increased \$11 million, or 11%, to \$112 million and, as a percentage of revenues, was consistent at 19%. The increase in cost of revenues included:

- an increase in personnel costs of \$16 million related to rising headcount to support our residential research efforts, and increases in salaries and benefits costs for our existing employees and
- a decrease of \$3 million in expenses related to advertising purchased on behalf of customers.

Selling and Marketing Expenses. Selling and marketing expenses increased \$69 million, or 38%, to \$250 million and, as a percentage of revenues, increased from 34% to 41%. The increase included:

- an increase in marketing expenses of \$45 million primarily for SEM advertising of our residential brands,
- an increase in personnel costs of \$19 million related to rising headcount in our sales force and increases in commissions expense due to increased sales volumes and
- an increase in occupancy costs of \$2 million related to the expansion of our sales force.

Software Development Expenses. Software development expenses increased \$12 million, or 23%, to \$63 million and, as a percentage of revenues, was consistent at 10%. The increase was due to higher personnel costs of \$11 million related to rising headcount to support our residential efforts and increases in salaries and benefits costs for our existing employees.

General and Administrative Expenses. General and administrative expenses increased \$13 million, or 17%, to \$91 million and, as a percentage of revenues, increased from 14% to 15%. The increase included:

- an increase in personnel costs of \$3 million related to increases in salaries and benefits costs for our existing employees and rising headcount,
- an increase of \$3 million in professional service costs due to legal fees to defend our intellectual property rights and
- an increase of \$6 million in bad debt expense.

Customer Base Amortization Expense. Customer base amortization expense decreased \$4 million, or 30%, to \$10 million and, as a percentage of revenues, decreased from 3% to 2%. The decrease was primarily attributable to a reduction in amortization expense related to customer base assets acquired in the acquisitions of LoopNet, Homesnap, ForRent and Ten-X, which have been amortizing on an accelerated basis since the respective acquisitions.

Interest Income (Expense), net. Interest income, net was \$52 million for the three months ended June 30, 2023 compared to interest expense, net of \$3 million for the three months ended June 30, 2022. This change was primarily due to an increase in interest earned on our cash equivalents.

Other Income, net. Other income, net, was insignificant for the three months ended June 30, 2023 and 2022.

Income Tax Expense. Income tax expense increased \$6 million, or 26%, to \$31 million and the effective tax rate increased 1% to 24% of income before income taxes. The increase in income tax expense was primarily attributable to additional income before income taxes.

Business Segment Results for Three Months Ended June 30, 2023 Compared to Three Months Ended June 30, 2022

We manage our business geographically in two operating segments, with our primary areas of measurement and decision-making being North America, which includes the U.S. and Canada, and International, which primarily includes Europe, Asia-Pacific, and Latin America. Management relies on an internal management reporting process that provides revenue and operating segment EBITDA. Management believes that operating segment EBITDA is an appropriate measure for evaluating the operational performance of our operating segments. EBITDA is used by management to internally measure our operating and management performance and to evaluate the performance of our business. However, this measure should be considered in addition to, not as a substitute for or superior to, income from operations or other measures of financial performance prepared in accordance with GAAP. See “Non-GAAP Financial Measures” for further information regarding our segment operating results.

Segment Revenues. North America revenues increased \$67 million, or 13%, to \$584 million and included:

- an increase in Multifamily revenues of \$42 million due to higher sales volumes driven by increases in pricing on renewals and an increase in the number of properties listed on our network,

- an increase in CoStar revenues of \$22 million due to higher sales volume driven by the impact of annual price increases and customer upgrades on contract renewals, as well as an increase in subscribers,
- an increase in LoopNet revenues of \$9 million due to an increase in the average price for listings,
- an increase in Information Services revenues of \$2 million primarily attributable to an increase in sales of CoStar Real Estate Manager and
- a decrease in Residential revenues of \$7 million due to the discontinuation of certain products and services that were inconsistent with our long-term business strategy.

The \$3 million, or 14%, increase in International revenues was primarily attributable to an increase in STR sales.

Segment EBITDA. North America EBITDA decreased \$34 million, or 24%, to \$105 million. The decrease in North America EBITDA was primarily due to increases in personnel costs, marketing costs, bad debt expense, professional service fees, occupancy and advertising purchased on behalf of customers partially offset by increases in revenues described above. International EBITDA decreased \$1 million, or 60%, to \$1 million. The decrease was due to an increase in personnel costs, partially offset by an increase in revenues described above.

Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022

The following table provides a comparison of our selected consolidated results of operations for the six months ended June 30, 2023 and 2022 (in thousands):

	Six Months Ended June 30,		Increase (Decrease) (\$)	Increase (Decrease) (%)
	2023	2022		
Revenues:				
CoStar	\$ 454,182	\$ 405,215	\$ 48,967	12 %
Information Services	83,550	75,717	7,833	10
Multifamily	434,988	357,836	77,152	22
LoopNet	128,800	110,744	18,056	16
Residential	25,861	38,214	(12,353)	(32)
Other Marketplaces	62,891	64,407	(1,516)	(2)
Total revenues	1,190,272	1,052,133	138,139	13
Cost of revenues	231,558	196,450	35,108	18
Gross profit	958,714	855,683	103,031	12
Operating expenses:				
Selling and marketing (excluding customer base amortization)	476,260	325,341	150,919	46
Software development	129,959	105,608	24,351	23
General and administrative	180,071	155,306	24,765	16
Customer base amortization	21,057	30,970	(9,913)	(32)
Total operating expenses	807,347	617,225	190,122	31
Income from operations	151,367	238,458	(87,091)	(37)
Interest income (expense), net	95,459	(11,117)	106,576	NM
Other income, net	1,190	2,207	(1,017)	(46)
Income before income taxes	248,016	229,548	18,468	8
Income tax expense	60,365	56,757	3,608	6
Net income	\$ 187,651	\$ 172,791	\$ 14,860	9

NM - Not meaningful

Revenues. Revenues increased \$138 million, or 13%, to \$1.2 billion. The increase in our revenues included:

- an increase in Multifamily revenues of \$77 million, or 22%, due to higher sales volume driven by increases in pricing on renewals and an increase in the number of properties listed on our network,
- an increase in CoStar revenues of \$49 million, or 12%, due to higher sales volume driven by the impact of annual price increases and customer upgrades on contract renewals, as well as an increase in subscribers,
- an increase in LoopNet revenues of \$18 million, or 16%, due to an increase in the average price for listings,
- an increase in Information Services revenues of \$8 million, or 10%, primarily attributable to an increase in revenues for STR of \$3 million, CoStar Real Estate Manager of \$2 million and \$2 million of revenue related to the Business Immo Acquisition,
- a decrease in Residential revenues of \$12 million, or 32%, due to the discontinuation of certain products and services that were inconsistent with our long-term business strategy and
- a decrease in Other Marketplaces revenues of \$2 million, or 2%, primarily driven by lower property volumes auctioned on Ten-X.

Gross Profit. Gross profit increased \$103 million, or 12%, to \$959 million, and the gross profit percentage was consistent at 81%. The increase in gross profit was due to higher revenues partially offset by an increase in cost of revenues. Cost of revenues increased \$35 million, or 18%, to \$232 million and, as a percentage of revenues, was consistent at 19%. The increase in cost of revenues included:

- an increase in personnel costs of \$36 million related to rising headcount to support our residential research efforts, and increases in salaries and benefits costs for our existing employees
- an increase of \$4 million in technology costs to host our database and products and
- a decrease of \$5 million in expenses related to advertising purchased on behalf of customers.

Selling and Marketing Expenses. Selling and marketing expenses increased \$151 million, or 46%, to \$476 million and, as a percentage of revenues, increased from 31% to 40%. The increase included:

- an increase in marketing expenses of \$100 million primarily for SEM advertising of our residential brands,
- an increase in personnel and events costs of \$45 million related to rising headcount in our sales force and increases in commissions expense due to increased sales volumes and
- an increase in occupancy costs of \$4 million related to the expansion of our sales force.

Software Development Expenses. Software development expenses increased \$24 million, or 23% to \$130 million and, as a percentage of revenues, increased from 10% to 11%. The increase included higher personnel costs of \$23 million related to rising headcount to support our residential efforts and increases in salaries and benefits costs for our existing employees.

General and Administrative Expenses. General and administrative expenses increased \$25 million, or 16%, to \$180 million and, as a percentage of revenues, was consistent at 15%. The increase included:

- an increase in personnel costs of \$8 million related to increases in salaries and benefits costs for our existing employees and rising headcount,
- an increase of \$7 million in professional service costs due to diligence efforts associated with potential acquisitions and legal fees to defend our intellectual property rights and
- an increase of \$7 million in bad debt expense.

Customer Base Amortization Expense. Customer base amortization expense decreased \$10 million, or 32%, to \$21 million and, as a percentage of revenues, decreased from 3% to 2%. The decrease was primarily attributable to a reduction in amortization expense related to customer base assets acquired in the acquisitions of LoopNet, Homesnap, ForRent and Ten-X, which have been amortizing on an accelerated basis since the respective acquisitions.

Interest Income (Expense), net. Interest income, net was \$95 million for the six months ended June 30, 2023, as compared to Interest expense, net of \$11 million for the six months ended June 30, 2022. This change was primarily due to an increase in interest earned on our cash equivalents.

Other Income, net. Other income, net was insignificant for the six months ended June 30, 2023 and 2022.

Income Tax Expense. Income tax expense increased \$4 million, or 6%, to \$60 million and the effective tax rate decreased 1% to 24% of income before income taxes. The increase in income tax expense was primarily attributable to additional income before income taxes.

Business Segment Results for Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022

We manage our business geographically in two operating segments, with our primary areas of measurement and decision-making being North America, which includes the U.S. and Canada, and International, which primarily includes Europe, Asia-Pacific, and Latin America. Management relies on an internal management reporting process that provides revenues and operating segment EBITDA. Management believes that operating segment EBITDA is an appropriate measure for evaluating the operational performance of our operating segments. EBITDA is used by management to internally measure our operating and management performance and to evaluate the performance of our business. However, this measure should be considered in addition to, not as a substitute for or superior to, income from operations or other measures of financial performance prepared in accordance with GAAP.

Segment Revenues. North America revenues increased \$133 million, or 13%, to \$1.1 billion and included:

- an increase in Multifamily revenues of \$77 million due to higher sales volume driven by increases in pricing on renewals and an increase in the number of properties listed on our network,
- an increase in CoStar revenues of \$49 million due to higher sales volume driven by the impact of annual price increases and customer upgrades on contract renewals, as well as an increase in subscribers,
- an increase in LoopNet revenues of \$17 million due to an increase in the average price for listings,
- an increase in Information Services revenues of \$4 million primarily attributable to an increase in CoStar Real Estate Manager and STR revenues,
- a decrease in Residential revenues of \$12 million due to the discontinuation of certain products and services that were inconsistent with our long-term business strategy and
- a decrease in Other Marketplaces revenues of \$2 million driven by lower property volumes auctioned on Ten-X partially offset by increases in revenue of Land.com

The \$5 million, or 14%, increase in International revenues was primarily attributable to an increase in STR revenue and the Business Immo Acquisition.

Segment EBITDA. North America EBITDA decreased \$93 million, or 32%, to \$201 million. The decrease in North America EBITDA was primarily due to increases in personnel costs, marketing costs, technology hosting costs, professional service fees, sales events costs, bad debt expense, occupancy and advertising purchased on behalf of customers partially offset by increases in revenues described above. International EBITDA decreased \$2 million, or 55%, to \$2 million. The decrease was due to an increase in personnel costs, partially offset by an increase in revenues described above.

Liquidity and Capital Resources

We believe the balance of cash and cash equivalents, which was \$5.2 billion as of June 30, 2023, along with cash generated by ongoing operations and continued access to capital markets, will be sufficient to satisfy our cash requirements over the next 12 months and beyond. Other than the construction commitments discussed below, our cash requirements have not changed materially from what is described in the 2022 Form 10-K.

Construction Commitments. We are expanding our Richmond, Virginia campus, which is expected to result in a material cash requirement in 2023 and beyond. We broke ground on the expansion in November 2022 and expect construction to be substantially completed in 2025. We negotiated various tax incentives with the Commonwealth of Virginia and the City of Richmond including the allowance to use market-based income apportionment for income taxes and partial reimbursements of property tax assessments related to the value of the campus expansion. These incentives are conditional upon achieving job

creation and capital expenditure targets from 2022 to 2029. Failure to meet these targets could result in a reduction of the value of the tax incentives and repayment of previous tax reductions. The value of the incentives is dependent on our taxable income.

We expect the total cost of construction, net of the estimated value of the tax incentives from 2023 to 2032, to be in the range of \$450 – \$550 million. We have engaged a project manager, architects and a general contractor on terms that generally require payments as services are provided or construction is performed. As of June 30, 2023, we have paid \$60 million and we have committed to spend an additional \$412 million as further work is performed under these contracts. We plan to amend these contracts to include additional commitments as construction progresses. Total cash expenditures for 2023 are expected to be approximately \$170 million. We expect to fund the expansion with cash on hand.

Our future capital requirements will depend on many factors, including, among others, our operating results, expansion and integration efforts, and our level of acquisition activity or other strategic transactions. To date, we have grown in part by acquiring other companies, and we expect to continue to make acquisitions.

Cash and cash equivalents increased to approximately \$5.2 billion as of June 30, 2023, compared to cash and cash equivalents of approximately \$5.0 billion as of December 31, 2022. The increase in cash and cash equivalents for the six months ended June 30, 2023 was primarily due to cash provided by operating activities of \$298 million. This increase was partially offset by \$54 million of cash used in investing activities, primarily attributable to purchases of property and equipment, including the purchase of assets related to the expansion of our campus in Richmond, Virginia and cash used in financing activities of \$6 million primarily related to repurchases of restricted stock to satisfy tax withholding obligations.

Net cash provided by operating activities for the six months ended June 30, 2023 was \$298 million compared to \$212 million for the six months ended June 30, 2022. The \$86 million increase in cash provided by operating activities was primarily due to:

- an increase of \$53 million due to changes in working capital primarily attributable to an increase in the balance of accounts payable and income taxes payable and
- an increase of \$33 million due to higher net income excluding certain non-cash expenses, such as credit loss expense and stock-based compensation expense during the six months ended June 30, 2023 compared to the six months ended June 30, 2022.

Net cash used in investing activities for the six months ended June 30, 2023 was \$54 million compared to \$58 million for the six months ended June 30, 2022. The \$4 million decrease in cash used in investing activities was primarily due a reduction in the cash used in acquisitions.

Net cash used in financing activities for the six months ended June 30, 2023 was \$6 million compared to \$15 million for the six months ended June 30, 2022. The decrease in net cash used in financing activities was primarily attributable to additional proceeds from the exercise of stock options.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. The following accounting policies involve a “critical accounting estimate” because they are particularly dependent on estimates and assumptions made by management about matters that are highly uncertain at the time the accounting estimates are made. In addition, while we have used our best estimates based on facts and circumstances available to us at the time, different acceptable assumptions would yield different results. Changes in the accounting estimates are reasonably likely to occur from period to period, which may have a material impact on the presentation of our financial condition and results of operations. We review these estimates and assumptions periodically and reflect the effects of revisions in the period that they are determined to be necessary. We consider policies relating to the following matters to be critical accounting policies:

- Long-lived assets, intangible assets and goodwill;
- Income taxes;
- Revenue recognition and
- Business combinations.

For an in-depth discussion of each of our significant accounting policies, including the related critical accounting estimates and further information regarding estimates and assumptions involved in their application, see the 2022 Form 10-K and Note 2 of the Notes to Condensed Consolidated Financial Statements included in Part I of this Report. During the six months ended June 30, 2023, there were no material changes to our critical accounting estimates from those described in the 2022 Form 10-K.

Recent Accounting Pronouncements

See Note 2 of the Notes to Condensed Consolidated Financial Statements included in Part I of this Report.

Cautionary Statement Concerning Forward-Looking Statements

We have made forward-looking statements in this Report and will make forward-looking statements in our press releases, investor conference calls, Annual Reports on Form 10-K, other Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other filings with the SEC that are subject to risks and uncertainties. Forward-looking statements include information that is not purely historic fact and include, without limitation, statements concerning our financial outlook for 2023 and beyond, our possible or assumed future results of operations generally, and other statements and information regarding assumptions or expectations about our revenues, revenue growth rates, gross margin percentage, net income, net income per share, fully diluted net income per share, EBITDA, adjusted EBITDA, adjusted EBITDA margin, non-GAAP net income, non-GAAP net income per diluted share, weighted-average outstanding shares, cash flow from operating activities, operating costs, capital and other expenditures, the impact of current economic conditions on our revenues, revenue growth rates and profitability, key priorities for 2023, trends in customer behavior, legal proceedings and claims, legal costs, effective tax rate, the anticipated benefits of completed or proposed acquisitions, the anticipated timing for integration of completed acquisitions, the anticipated benefits of cross-selling efforts, geographic and product expansion, planned service enhancements, expansion and development of our sales forces, planned sales and marketing activities and investments, the impact or results of sales and marketing initiatives, product integrations, elimination and de-emphasizing of services, investments in residential marketplace services and our residential marketplace strategy, net new sales, contract renewal rates, use of proceeds from equity and debt offerings, the use of proceeds from any draws under our \$750 million credit facility provided by the 2020 Credit Agreement, expectations regarding our compliance with financial and restrictive covenants in the 2020 Credit Agreement, employee relations, management's plans, goals and objectives for future operations, sources and adequacy of liquidity and growth and markets for our stock. Sections of this Report that contain forward-looking statements include the Condensed Consolidated Financial Statements and related Notes, "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Quantitative and Qualitative Disclosures About Market Risk," "Controls and Procedures," "Legal Proceedings" and "Risk Factors."

Our forward-looking statements are also identified by words such as "hope," "anticipate," "may," "believe," "expect," "intend," "will," "should," "plan," "estimate," "predict," "continue" and "potential" or the negative of these terms or other comparable terminology. You should understand that these forward-looking statements are estimates reflecting our judgment, beliefs and expectations, not guarantees of future performance. They are subject to a number of assumptions, risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statements. The following important factors, in addition to those discussed or referred to under the heading "Risk Factors," and other unforeseen events or circumstances, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in our forward-looking statements:

- our inability to attract and retain new clients;
- our inability to successfully develop and introduce new or updated information, analytics and online marketplace services;
- our inability to compete successfully against existing or future competitors in attracting advertisers and in general;
- competition;
- the effects of fluctuations and market cyclicity;
- the effects of global economic uncertainties and downturns or a downturn or consolidation in the real estate industry;
- our inability to hire qualified persons for, or retain and continue to develop, our sales force, or unproductivity of our sales force;
- our inability to retain and attract highly capable management and operating personnel;
- the downward pressure that our internal and external investments may place on our operating margins;
- our inability in increasing brand awareness;
- our inability to maintain or increase internet traffic to our marketplaces;
- our inability to attract new advertisers;
- our inability to successfully identify, finance, integrate and/or manage costs related to acquisitions;
- the effects of cyberattacks and security vulnerabilities, and technical problems or disruptions;
- the risks related to a large infrastructure project to build out our campus in Richmond, Virginia;
- our inability to generate increased revenues from our current or future geographic expansion plans;
- the effects of and uncertainty surrounding the COVID-19 pandemic and its effect on the global economy and the real estate industry;
- the risks related to acceptance of credit cards and debit cards and facilitation of other customer payments;

- the effects of climate change and other events beyond our control;
- the effects related to increased attention to ESG matters;
- our inability to obtain and maintain accurate, comprehensive or reliable data;
- our ability to enforce or defend our ownership and use of intellectual property;
- our inability to successfully halt the operation of websites that aggregate our data, data from other companies or “copycat” websites that may misappropriate our data;
- our inability to defend against potential legal liability for collecting, displaying or distributing information;
- our inability to obtain or retain listings from real estate brokers, agents, property owners and apartment property managers;
- the risks related to international operations;
- the effects of foreign currency fluctuations;
- the effects of Brexit;
- our indebtedness;
- the effects of a lowering or withdrawal of the ratings assigned to our debt securities by rating agencies;
- the effects of any actual or perceived failure to comply with privacy or data protection laws, regulations or standards;
- the effects of changes in tax laws, regulations or fiscal and tax policies;
- the effects of third-party claims, litigation, regulatory proceedings or government investigations;
- risks related to return on investment and
- the risk that the methods, including Google Analytics, that we use to measure unique visitors to our portals may overstate the actual number of unique persons who visit our network of mobile applications and websites for a given month or may differ from the methods used by competitors, which may impact the comparability of unique visitors between companies.

Accordingly, you should not place undue reliance on forward-looking statements, which speak only as of, and are based on information available to us on, the date of this Report. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to update any such statements or release publicly any revisions to these forward-looking statements to reflect new information or events or circumstances after the date of this Report or to reflect the occurrence of unanticipated events.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We provide information, analytics and online marketplace services to real estate and related business communities within the regions where we operate, which primarily include, North America, Europe, Asia-Pacific and Latin America. The functional currency for a majority of our operations is the local currency, with the exception of certain international locations for which the functional currency is the British Pound.

Fluctuations in the British pound, Canadian dollar and Euro may have an impact on our business, results of operations and financial position. For the three and six months ended June 30, 2023, approximately 4% of our revenues were denominated in foreign currencies. For the three and six months ended June 30, 2023, our revenues would have increased by approximately \$2.4 million and \$4.5 million, respectively, if the U.S. dollar exchange rate used strengthened by 10%. For the three and six months ended June 30, 2023, our revenues would have decreased by approximately \$2.4 million and \$4.5 million, respectively, if the U.S. dollar exchange rate used weakened by 10%. In addition, we have assets and liabilities denominated in foreign currencies. We currently do not use financial instruments to hedge our exposure to exchange rate fluctuations with respect to our foreign subsidiaries. We may seek to enter into hedging transactions in the future to reduce our exposure to exchange rate fluctuations, but we may be unable to enter into hedging transactions successfully, on acceptable terms or at all. As of June 30, 2023, accumulated other comprehensive loss included a loss from foreign currency translation adjustments of approximately \$21.6 million.

We do not believe we have material exposure to market risks associated with changes in interest rates related to cash equivalent securities held as of June 30, 2023. As of June 30, 2023, we had approximately \$5.2 billion of cash and cash equivalents. If there is an increase or decrease in interest rates, there will be a corresponding increase or decrease in the amount of interest earned on our cash and cash equivalents. We currently diversify our cash and cash equivalents holdings amongst multiple financial institutions and AAA-rated Government and Treasury Money Market Funds.

We are subject to interest rate market risk in connection with our revolving credit facility. On July 1, 2020, we entered into the 2020 Credit Agreement, which provides for variable rate borrowings of up to \$750 million. On July 1, 2020, we issued \$1.0 billion aggregate principal amount of Senior Notes. Changes in interest rates would not have a material impact to our current interest and debt financing expense, as all of our borrowings except for our credit facility are fixed rate, and no amounts were outstanding under our credit facility as of June 30, 2023. See Note 10 of the Notes to Condensed Consolidated Financial Statements included in Part I of this Report for additional information regarding our 2020 Credit Agreement.

We had approximately \$2.6 billion of goodwill and intangible assets as of June 30, 2023. As of June 30, 2023, we believe our intangible assets will be recoverable; however, changes in the economy, the industry in which we operate and our own relative performance could change the assumptions used to evaluate intangible asset recoverability. In the event that we determine that an asset has been impaired, we would recognize an impairment charge equal to the amount by which the carrying amount of the assets exceeds the fair value of the asset. We continue to monitor these assumptions and their effect on the estimated recoverability of our intangible assets.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of June 30, 2023, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2023 and were operating at a reasonable assurance level.

We continue to implement a financial system that is designed to improve the efficiency and effectiveness of our operational and financial accounting processes. This implementation is expected to continue beyond 2023. Consistent with any process change that we implement, the design of the internal controls has and will continue to be evaluated for effectiveness as part of our overall assessment of the effectiveness of our disclosure controls and procedures. We expect that the implementation of this system will further improve our internal control over financial reporting.

Other than the implementation of a new financial system noted above, there have been no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

Currently, and from time to time, we are involved in litigation incidental to the conduct of our business. We are not currently a party to any lawsuit or proceeding that, in the opinion of our management based on consultations with legal counsel, is likely to have a material adverse effect on our financial position or results of operations. See Note 12 of the Notes to the Condensed Consolidated Financial Statements included in Part I of this Report for further discussion.

Item 1A. Risk Factors

In addition to the other information set forth in this Report, you should carefully consider the factors disclosed in Part I, “Item 1A Risk Factors” in our 2022 Form 10-K, which could materially affect our business, financial condition or future results. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, may also have a material adverse effect on our business, financial condition and/or results of operations. There have not been any material changes to the risk factors as previously disclosed in Part I, “Item 1A Risk Factors” in our 2022 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table is a summary of our repurchases of common stock during each of the three months in the quarter ended June 30, 2023:

ISSUER PURCHASES OF EQUITY SECURITIES

	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
2023				
April 1 through 30	285	\$ 68.94	—	—
May 1 through 31	39	76.95	—	—
June 1 through 30	9,510	80.91	—	—
Total	9,834	\$ 80.55	—	—

⁽¹⁾ The number of shares purchased consists of shares of common stock tendered by employees to the Company to satisfy the employees' minimum tax withholding obligations arising as a result of vesting of restricted stock grants under the Company's 2016 Stock Incentive Plan, as amended, which shares were purchased by the Company based on their fair market value on the trading day immediately preceding the vesting date. None of these share purchases were part of a publicly announced program to purchase common stock of the Company.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the three months ended June 30, 2023, no director or officer of the Company adopted or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408 of Regulation S-K.

Item 6. Exhibits

Exhibit No.	Description
3.1	Fourth Amended and Restated Certificate of Incorporation (Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 7, 2021).
3.2	Fourth Amended and Restated By-Laws (Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 9, 2022).
10.1	First Amendment to the Second Amended and Restated Credit Agreement, dated as of May 8, 2023, among CoStar Group, Inc., as borrower, CoStar Realty Information, Inc., as co-borrower, the lenders from time to time party thereto and Bank of America, N.A., as administrative agent (filed herewith).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2023, formatted in Inline XBRL: (i) Condensed Consolidated Statements of Operations; (ii) Condensed Consolidated Statements of Comprehensive Income; (iii) Condensed Consolidated Balance Sheets; (iv) Condensed Consolidated Statements of Changes in Stockholders' Equity; (v) Condensed Consolidated Statements of Cash Flows; and (vi) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text and including detailed tags.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
104	The cover page from the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2023, formatted in Inline XBRL (included as Exhibit 101).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COSTAR GROUP, INC.

Date: July 26, 2023

By: /s/ Scott T. Wheeler
Scott T. Wheeler
Chief Financial Officer
(Principal Financial and Accounting Officer and Duly
Authorized Officer)