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**UNITED STATES DISTRICT COURT  
WESTERN DISTRICT OF WASHINGTON  
AT SEATTLE**

DIBAKAR BARUA, *et al.*,

Plaintiffs,

v.

ZILLOW GROUP, INC., *et al.*,

Defendants.

Civil Action No. 2:21-cv-01551-TSZ

**CORRECTED CONSOLIDATED  
CLASS ACTION COMPLAINT**

**JURY TRIAL DEMANDED**

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1           2.       Zillow is known for operating the most visited real estate website in the United  
2 States, “zillow.com,” as well as other real estate websites such as Trulia and StreetEasy.  
3 Traditionally, it has generated revenue from advertising revenue from these websites and earned  
4 referral fees when matching prospective buyers and sellers with real estate agents and brokers. By  
5 2018, however, the growth in Zillow’s core business had slowed and its stock price was stagnating.  
6 To spur growth, in April 2018 Zillow announced that it would fundamentally shift its business  
7 model and enter the “iBuyer”—or “Instant Buyer”—market.

8           3.       Companies that compete in the iBuyer space use algorithms and technology to buy  
9 and resell homes quickly. In particular, these companies make instant cash offers to buy homes  
10 based on the values indicated by their pricing algorithms, make repairs and updates, and then  
11 quickly relist the homes for sale. Opendoor Technologies, Inc. (“Opendoor”), which launched in  
12 2014, was the earliest iBuyer. Offerpad Solutions, Inc. (“Offerpad”) followed shortly thereafter,  
13 joining the iBuyer market in 2015. Another iBuyer, Redfin Now, launched in 2017.

14           4.       Zillow’s new iBuying business, which it called Zillow Offers, provided the  
15 Company with a brand-new revenue source to revive its decelerating revenue streams. Zillow  
16 initially launched Zillow Offers in two test markets, but by the end of 2018, Zillow had expanded  
17 its iBuying operations to five metropolitan areas.

18           5.       In February 2019, Zillow announced that Defendant Barton, one of Zillow’s co-  
19 founders, would return as CEO. In a February 21, 2019 press release announcing Barton’s return,  
20 Zillow explained that the change was coming “at a time when Zillow Group is dramatically  
21 expanding the scope of its business, entering into buying and selling homes, mortgage lending and  
22 other services intended to make real estate transactions easier and more seamless for consumers.”

23           6.       Zillow coined its new business model “Zillow 2.0” and made clear that the model  
24 revolved around the success of its new Zillow Offers business. In other words, as one market  
25 commentator noted following the announcement, “[t]he company will pin its future on Zillow  
26 Offers.”

27           7.       In connection with the shift, Barton announced a goal for Zillow Offers of reaching  
28 \$20 billion in revenue within five years and purchasing and selling 5,000 homes per month. As

1 one market commentator noted, “[t]o hit the ambitious goal of \$20 billion in revenue in three to  
2 five years from the Homes segment, which includes Zillow Offers, would be a serious  
3 accomplishment. Zillow as a whole brought in \$1.3 billion in revenue for all of 2018.”

4 8. Over the next few years, Zillow rapidly expanded its Zillow Offers business. By  
5 the end of 2019, the Company was buying and selling homes directly in 22 markets and Zillow  
6 Offers accounted for roughly half of the Company’s total revenue in 2019. In early 2020, after the  
7 COVID-19 pandemic began, the Company paused its Zillow Offers home purchases, which  
8 slowed its growth trajectory for 2020. But by the second quarter of 2021, Zillow Offers was  
9 expanding again, so much so that Zillow Offers made up roughly 60% of Zillow’s total revenues.

10 9. To ensure the success of its Zillow Offers business, the Company had to execute  
11 well in at least three areas. *First*, it had to ensure that its algorithms could accurately predict home  
12 values. Given the scale at which Zillow operated, if Zillow paid too much for homes, it could  
13 expose the Company to massive losses. The Wall Street Journal reported, in a post-Class Period  
14 exposé based on interviews of current and former employees, that: “The business model rested on  
15 the assumption that Zillow’s algorithm, fed by the company’s trove of data, would be able to  
16 predict home prices with pinpoint accuracy.” In the years leading up to the Class Period,  
17 Defendants repeatedly touted its algorithm’s ability to accurately price homes, representing, for  
18 instance, that “we’re very accurate on the homes that we’re making Zillow Offers on right now.”

19 10. *Second*, Zillow had to successfully drive down its cost structure, for example, by  
20 renovating homes more cheaply and efficiently. Flipping homes quickly was also key to keeping  
21 costs down, since the holding costs and interest expenses associated with holding each home were  
22 high. Thus, the longer it took Zillow to renovate and sell homes after it purchased them, the higher  
23 its costs. Zillow Offers was highly unprofitable during its first few years of operation and market  
24 analysts monitored its cost structure closely for signs that it could one day be profitable.

25 11. *Third*, it was critical for Zillow to quickly scale its Zillow Offers business by rapidly  
26 increasing the number of homes it was purchasing each quarter. Quickly achieving scale was key  
27 because it allowed the Company to improve Zillow’s cost structure. As Defendant Barton noted in  
28 February 2021, “[s]cale is super important” and “as we get bigger and better at this, we’re going

1 to see costs come down.” Scaling up was also essential to allow the Company to catch up with  
2 competitors. As Defendant Barton noted in February 2019, “we are in a race and we’re racing to  
3 scale.” As a result, in the years leading up to the Class Period, Zillow’s executives were laser-  
4 focused on increasing Zillow’s home purchasing volumes to achieve Barton’s targets of 5,000  
5 homes per month by 2024. Heading into 2021, Zillow set lofty volume targets for the Zillow Offers  
6 business. But still, Defendants reassured the market that they did not plan to take undue risk, by  
7 setting “guardrails” by which they ran the business. For example, on a February 11, 2021  
8 conference call, Parker pointed out the “plus or minus basis point guardrail we set for ourselves  
9 while working to scale the business.” This reassurance was repeated in May and August 2020.

10 12. In the first quarter of 2021, however, Zillow fell well behind its internal home  
11 purchasing volume targets. As The Wall Street Journal reported in its post-Class Period exposé:

12 As first-quarter [2021] numbers trickled in, it became clear that ...  
13 the company was on track to significantly miss its annual target for  
14 the number of homes it wanted to buy. Worse, it was falling behind  
15 its top competitor, Opendoor. ‘This is code red,’ Joshua Swift,  
16 senior vice president of Zillow Offers, said during a virtual meeting,  
17 according to the person who attended.

18 13. Zillow determined that it was missing its volume targets because its algorithm was  
19 not accurately predicting housing market appreciation, which resulted in its offers being too low  
20 to entice prospective sellers. As The Wall Street Journal reported, “[t]he company’s algorithm,  
21 which was supposed to predict housing prices, didn’t seem to understand the market.”

22 14. During Zillow’s May 4, 2021 earnings conference call for the first quarter of 2021,  
23 Defendant Parker acknowledged that the Zillow Offers home purchasing volume for the quarter  
24 was “not quite at the pace we planned,” but represented that “we continue to work on refining our  
25 models to catch up with the rapid acceleration in home price appreciation.” Then, in mid-June  
26 2021, Zillow told the market that it had improved its pricing model to “react more quickly to  
27 current market trends” and thus would be able to more accurately price homes.

28 15. But all was not well internally. Defendants knew that they could not keep up with  
their home purchasing goals by relying on the way they had been pricing homes. They were losing  
market share to Opendoor. So Defendants threw caution, and everything they had learned, to the



1 wind: “Zillow turned up the dials in the second quarter, according to a person familiar with the  
2 decision, who asked not to be named because the matter is private.”

3 16. As the financial press would later uncover, and former employees have confirmed,  
4 in the Spring of 2021:

5 Zillow put together a plan to speed up the pace and volume of home  
6 purchases, dubbing it Project Ketchup—which employees took as a  
7 play on the team’s mission to catch up to Opendoor. Zillow planned  
8 to buy more homes by spending more money, offering prices well  
9 above what its algorithm and analysts picked as market value,  
10 people familiar with the matter said.

11 17. To do so, Zillow’s management decided to systematically overrule Zillow’s highly-  
12 touted algorithm in order to drive volume and catch up to Zillow’s home-purchasing goals. The  
13 Wall Street Journal reported that Zillow secretly “retooled the system to raise the analysts’  
14 suggested prices. Automatic price add-ons coded into the company system, including one called  
15 the ‘gross pricing overlay’ that could add as much as 7%, would boost offering prices to get more  
16 home sellers to say yes.”

17 18. Zillow’s pricing overlays had their intended effect, quickly driving up home  
18 purchasing volume. In the first quarter of 2021, Zillow purchased 1,856 homes. But by the second  
19 quarter of 2021, when the overlays began in earnest, Zillow purchased 3,805 homes, more than  
20 twice as many. By the third quarter of 2021, Zillow had again more than doubled its home  
21 purchases, to 9,680 homes.

22 19. Internally, however, employees were raising red flags that Zillow was paying way  
23 too much for houses. For example, as The Wall Street Journal reported, “[s]taffers grew concerned  
24 Zillow was paying too much” and “[s]ome Zillow employees complained about the pricing in  
25 company Slack channels and meetings, but their concerns went largely unaddressed or they were  
26 told that the model was working as intended.”

27 20. When Zillow makes a final offer to purchase a home, it typically subtracts its  
28 estimated renovations costs. Thus, in the Spring of 2021, in another undisclosed effort to drive  
volume, Zillow significantly decreased the scope of its renovations, as well as the prices it paid to  
contractors to complete those renovations. By lowering renovation costs, Zillow hoped to present

1 sellers with higher final offers that would entice them to sell to Zillow. As Business Insider  
2 reported, in another post-Class Period exposé based on the accounts of current and former Zillow  
3 employees, “Zillow sought to increase the competitiveness of its bidding by offering sellers fewer  
4 deductions from the purchase price,” and did so by “reduc[ing] the price it was willing to pay for  
5 specific types of renovation work and shrink the scope of many jobs.”

6 21. These changes, however, squeezed Zillow’s contractors at a time when Zillow was  
7 relying on them to quickly renovate a significantly higher volume of houses. Because Zillow’s  
8 contractors could no longer be profitable given the narrowed scopes and lowered pricing, they  
9 began declining jobs and refusing to work for the Company. Without sufficient contractors to  
10 complete its renovations, Zillow’s increasing volume of homes sat idle and by July the Company  
11 had built up a substantial backlog of homes that needed to be renovated. This renovation inventory  
12 backlog impacted Zillow’s ability to quickly sell its homes, thereby increasing its costs.

13 22. As Business Insider reported after the Class Period, Zillow’s narrowed scopes and  
14 lowered prices “prompted some [contractors] to de-prioritize Zillow jobs or cut ties with the  
15 company” and “[t]hey had a lot of difficulty finding contractors because their pricing was terrible.”  
16 It further wrote that: “[w]ith a scarcity of labor, Zillow’s problems began to cascade. Homes it had  
17 acquired lingered on its balance sheet for longer periods because it couldn’t make the necessary  
18 repairs to bring them back to market for resale.” Ultimately, “[h]olding onto properties ate into the  
19 business’ profitability” because, as Business Insider reported, “it cost the company on average  
20 about \$225 a day to hold a property.”

21 23. At the beginning of the Class Period, when Zillow reported second quarter 2021  
22 earnings on August 5, 2021, it did not disclose any of this information. Instead, it lauded the strong  
23 demand for Zillow Offers, claimed that higher volumes were the result of improvements in the  
24 Company’s algorithm, and told investors that it had made “durable” operational improvements to  
25 lower renovation costs.

26 24. For example, Zillow’s quarterly shareholder letter for the second quarter of 2021  
27 represented that: “The record number of homes purchased was more than double that of Q1 2021  
28

1 and is *a direct reflection of ... the progress we have made in strengthening our pricing models.*<sup>1</sup>  
 2 During the conference call, Defendant Parker similarly represented that: “We made progress this  
 3 quarter in improving our pricing models, including launching the neural Zestimate[,] which  
 4 sharpened our offer strength” and “[t]hese improvements drove rapid gains in conversion rates  
 5 in Q2 when compared to Q1 resulting in record purchases.”

6 25. These statements were materially false and misleading. In reality, the Company’s  
 7 higher volumes and conversion rates did not result from Zillow strengthening and improving its  
 8 pricing algorithms to be more accurate but, instead, were the result of overlays applied on top of  
 9 the algorithms for the purpose of driving volume. Investors were thus misled to believe that Zillow  
 10 had successfully strengthened its pricing model to more carefully predict and react to market trends  
 11 when, in truth, it was simply increasing offers to make its volume targets, without regard to the  
 12 manner in which the market was moving.

13 26. During the conference call, Defendants also repeatedly represented that Zillow  
 14 Offers had seen “*significant customer demand*” in the second quarter and had “*continued to see*  
 15 *strong growth in customer demand as we entered Q3.*” These statements gave investors the  
 16 misleading impression that there was organic and increasing “strong demand” for Zillow’s iBuying  
 17 service when, in reality, Defendants were artificially creating the impression of the demand  
 18 through the significant and unsustainable overpayments the Company was offering to entice sellers  
 19 and drive higher home purchase volumes.

20 27. During the August 5, 2021 call, Defendant Parker also highlighted Zillow’s “**353**  
 21 ***basis point improvement from a year ago in renovation, holding and selling costs,***” which he  
 22 claimed were “*largely durable operational improvements.*” These statements were materially  
 23 false and misleading because Defendants failed to disclose that Zillow’s “cost improvements”  
 24 were not “durable,” but instead were causing significant negative impact to the Company,  
 25

26 <sup>1</sup> Emphasis added unless otherwise indicated. For ease of reference, Plaintiff has endeavored  
 27 to highlight the materially false and misleading aspects of Defendants’ Class Period statements in  
 28 ***bold and italics***. Additional text is provided often for context, but that context can also contribute  
 to the false and misleading nature of Defendants’ statements.

1 including that its contractors had begun declining to take Zillow jobs, creating a massive backlog  
2 of renovation jobs that it could not complete, which in turn impeded Zillow's ability to quickly  
3 resell homes and drove up its holding costs.

4 28. Analysts echoed Defendants' misleading statements. For example, Barclays wrote  
5 that "improved pricing models and increased seller interest helped more than double inventory at  
6 quarter end, positioning the segment to continue to scale." Berenberg wrote that: "[i]mportantly,  
7 the company highlighted that its pricing model for Homes was improving. We point to that as a  
8 key catalyst to delivering profitability for the segment." Piper Sandler wrote that "ZG recently  
9 updated its ZOffers algorithm to adapt to a rapidly changing market" and "it appears the updates  
10 seem to be working," concluding that "[w]e see the growth inflection back on track."

11 29. On September 13, 2021, Defendant Wacksman reiterated "***record demand for***  
12 ***Zillow Offers***" and "***durable***" economic improvements at an industry analyst conference, causing  
13 Piper Sandler to report: "On the ZOffers side, management feels confident about margin  
14 improvements. While home price appreciation has helped, other improvements across renovation,  
15 holding, and resale are more durable."

16 30. Less than three weeks later, the relevant truth concealed by Defendants' false and  
17 misleading statements began to be revealed to the market through a series of partial corrective  
18 disclosures. *First*, on October 4, 2021, analysts from RBC Capital Markets lowered their price  
19 target for Zillow, warning investors that its internal analysis of Phoenix-area listings suggested  
20 that Zillow had "meaningful inventory" that it "bought at too high a price." On this news, the price  
21 of Zillow common stock (ZG) declined \$5.72 per share, or more than 6%, from a close of \$91.40  
22 per share on October 1, 2021, to a close of \$85.68 per share on October 4, 2021. Similarly, the  
23 price of Zillow capital stock (Z) declined \$4.98 per share, or approximately 5.5%, from a close of  
24 \$90.36 per share on October 1, 2021, to a close of \$85.38 per share on October 4, 2021.

25 31. *Then*, on October 18, 2021, Zillow delivered the first of two completely unexpected  
26 blows to investors in announcing that "[d]ue to a backlog in renovations and operational capacity  
27 constraints," Zillow Offers "will not sign any new, additional contracts to buy homes through the  
28 end of the year." On this news, the price of Zillow common stock (ZG) declined \$8.84 per share,

1 or more than 9%, from a close of \$94.30 per share on October 15, 2021, to a close of \$85.46 per  
2 share on October 18, 2021. Similarly, the price of Zillow capital stock (Z) declined \$8.97 per share,  
3 or more than 9%, from a close of \$94.97 per share on October 15, 2021, to a close of \$86.00 per  
4 share on October 18, 2021.

5 32. On November 1, 2021, media outlets reported that, pursuant to a detailed analysis  
6 by KeyBanc Capital Markets, most of the homes in the Zillow Offers inventory were now worth  
7 less than the Company paid for them, and that Zillow was looking to sell off 7,000 homes. In  
8 response to this news, the price of Zillow common stock (ZG) declined \$20.24 per share over two  
9 trading days, or more than 19%, from a close of \$105.72 per share on October 29, 2021, to a close  
10 of \$85.48 per share on November 2, 2021. Similarly, the price of Zillow capital stock (Z) declined  
11 \$16.43 per share, or nearly 16%, from a close of \$103.63 per share on October 29, 2021, to a close  
12 of \$87.20 per share on November 2, 2021.

13 33. Zillow delivered the final blow to investors after the market closed on November  
14 2, 2021. That day, Zillow announced that it was “wind[ing] down” the Zillow Offers program and  
15 laying off approximately 25% of its workforce. In doing so, Zillow revealed that it would need to  
16 recognize an inventory write-down of \$304 million in the third quarter, with an expected additional  
17 write-down in the fourth quarter of approximately \$240 to \$265 million (totaling as high as \$560  
18 million), because it had bought and overpaid for over 9,700 homes—with commitments for about  
19 the same number still yet to close. Defendants blamed the highly-touted algorithms and pricing  
20 models they had extolled just a few months earlier, explaining that: “fundamentally, we have been  
21 unable to predict future pricing of homes to a level of accuracy that makes this a safe business to  
22 be in.” The Company also pinned some of the blame for the Zillow Offers shutdown on the labor  
23 issues and resulting renovations backlog that it had concealed during the Class Period, noting that  
24 it had “experienced significant capacity and demand planning challenges,” which had “caused a  
25 meaningful backup in our processing of homes in [the] Zillow pipeline.”

26 34. On this news, the price of Zillow common stock (ZG) plummeted an additional  
27 \$19.62 per share, or approximately 23%, to close at \$65.86 per share on November 3, 2021.

28

1 Similarly, the price of Zillow capital stock (Z) fell \$21.73 per share, or approximately 25%, to  
2 close at \$65.47 per share on November 3, 2021.

3 35. Analysts and market commentators were shocked, calling the announcement a  
4 “debacle,” a “tremendous setback,” a “drastic and unexpected move,” a “major strategic retreat  
5 and a black eye,” “one of the sharpest recent American corporate retreats,” and a “financial  
6 disaster,” which called into question Defendants’ actions and credibility. For example, Piper  
7 Sandler wrote that: “Events suggest a string of poor decision making by management over a  
8 number of months” and “the evidence is accumulating of a considerable execution misstep. *More*  
9 *recent news of internal memos titled ‘Project Ketchup’ that encouraged ZOffers homebuyers to*  
10 *accelerate purchases to ‘catch up’ with Open Door are particularly worrying. Management*  
11 *should be accountable.”*

12 36. Stephens called the announcement “the most shocking news that hit the U.S. real  
13 estate vertical in 2021.” Stephens specifically called out Defendants’ false and misleading  
14 statements just a few months earlier, writing that “it was the suddenness of the announcement that  
15 added to the shock factor as Zillow was coming off a record rate of home purchases, and it was  
16 just a few months removed from a quarter (2Q21) in which the Company really applauded the  
17 success it was seeing in expanding ZO (*the 2Q21 shareholder letter highlighted Zillow’s*  
18 *improvements in ‘pricing models* and automation when providing offers to customers’).” Stephens  
19 concluded that “[c]learly, faster is not always better and *Zillow (and the stock) paid dearly for its,*  
20 *arguably, reckless approach to share gains.”*

21 37. As a result of Defendants’ fraudulent acts and omissions, and the resulting declines  
22 in the market value of Zillow’s Common Stock, Plaintiff and the Class have suffered significant  
23 damages.

## 24 II. JURISDICTION AND VENUE

25 38. This action arises under Sections 10(b) and 20(a) of the Exchange Act (15 U.S.C.  
26 §§ 78j(b) and 78t(a)) and Rule 10b-5 (17 C.F.R. § 240.10b-5) promulgated under the Exchange  
27 Act.  
28



1 **C. Executive Defendants**

2 44. Defendant Richard N. Barton (“Barton”), Zillow’s co-founder, is, and was  
3 throughout the Class Period, the Company’s Chief Executive Officer. He co-founded Zillow in  
4 2005 and served as CEO until 2010, when he became the Company’s executive chairman. He  
5 returned as CEO in early 2019.

6 45. Defendant Allen W. Parker (“Parker”) is, and was throughout the Class Period, the  
7 Company’s Chief Financial Officer. As CFO of Zillow, Parker oversees the Company’s  
8 accounting, finance, legal, mergers and acquisitions, and treasury functions.

9 46. Defendant Jeremy Wacksman (“Wacksman”) is, and was since February 2021, the  
10 Company’s Chief Operating Officer. As COO, Wacksman leads Zillow’s business, product,  
11 operations, engineering, industry, and brokerage licensing teams, including focusing on the Zillow  
12 2.0 vision for the future of real estate, building a seamless customer experience across Zillow’s  
13 products and services. Wacksman previously served as President and Chief Marketing Officer of  
14 Zillow.

15 47. Defendants Barton, Parker, and Wacksman are collectively referred to herein as the  
16 “Executive Defendants.”

17 48. The Executive Defendants were responsible for the day-to-day management and  
18 controlled and directed the business activities of Zillow. Each had the authority to, and in fact did,  
19 control the contents of the Company’s periodic reports to the SEC, shareholder letters, press  
20 releases, and presentations to securities analysts, money and portfolio managers, and institutional  
21 investors.

22 49. Each Executive Defendant was provided with copies of the Company’s shareholder  
23 letter, alleged herein to be misleading, prior to or shortly after its issuance, and had the ability and  
24 opportunity to prevent its issuance or cause it to be corrected. Because of their positions and  
25 possession of and/or access to material, non-public information, each of the Executive Defendants  
26 knew or was reckless to disregard that the adverse facts specified herein had not been disclosed to,  
27 and/or were being concealed from, the public, and that the positive representations that were being  
28 made were materially false and/or misleading.



1           50.     The Company and the Executive Defendants are collectively referred to herein as  
2 “Defendants.”

3 **D.     Relevant Non-Parties – Former Zillow Employees**

4           51.     Former Employee No. 1 (“FE-1”) worked at Zillow from before the Class Period  
5 until January 2022 as an acquisitions analyst for a market in a region in the Western United States.  
6 FE-1’s primary responsibility was pricing homes for Zillow Offers, a role in which he<sup>2</sup> utilized a  
7 pre-programmed pricing spreadsheet to price homes. During the Class Period, FE-1 reported to  
8 Shannon Foster, a manager on the Acquisitions team.

9           52.     Former Employee No. 2 (“FE-2”) worked at Zillow from before the Class Period  
10 until early 2022 as a senior data scientist. Part of FE-2’s responsibilities included forecasting the  
11 home purchasing volume for Zillow Offers. Among other things, FE-2’s team was responsible for  
12 a forecasting dashboard called the Goals Pacing dashboard, which was updated daily. The  
13 dashboard was reported up to Zillow Offers’ management, and Zillow Offers executives had  
14 access to the dashboard. FE-2 participated in and assisted with preparing for monthly forecasting  
15 and planning meetings, which were attended by FE-2’s superiors Krishna Rao (Vice President of  
16 Offers and Analytics) and Warren Jackson (Director of Data Science), and Zillow Offers  
17 executives, including the President of Zillow Offers. The monthly forecasting and planning  
18 meetings included discussion on Zillow Offers’ purchasing goals and forecasting, as well as its  
19 actual progress against those goals. During the Class Period, FE-2 reported to Warren Jackson and  
20 Michael Miller, a Data Science Manager.

21           53.     Former Employee No. 3 (“FE-3”) worked at Zillow from early 2020 to Spring 2021  
22 as a Renovations Superintendent. From Spring 2021 until November 2021, FE-3 worked as a  
23 Renovations Field Manager. In or around November 2021, FE-3 was promoted to Assistant  
24 General Manager and remained in that position until he left the Company after the end of the Class  
25 Period. Part of FE-3’s role included managing teams that would scope homes for renovations as  
26 well as other teams that would renovate homes after purchase. FE-3’s work concerned two markets  
27

28           <sup>2</sup> To maintain confidentiality, the former Zillow employees are referred to in the masculine.

1 in the Southwestern United States. FE-3 attended weekly calls with District Managers, monthly  
 2 calls with Vice Presidents, and at least one monthly call attended by Defendant Barton where  
 3 Zillow Offers' renovation backlog was discussed.

4 54. Former Employee No. 4 ("FE-4") worked at Zillow starting in 2019 as a  
 5 Renovations Superintendent. As a Renovations Superintendent, FE-4's role was to enforce the  
 6 scope of work tasked to contractors, draft "change orders" on renovation work, and manage  
 7 renovations on the homes assigned to him. In the Spring of 2021, FE-4 was promoted to a  
 8 Renovations Field Manager position in a market in the Southeastern United States, a position he  
 9 held until after the Class Period ended. As a Renovations Field Manager, FE-4's duties included  
 10 reviewing renovation scope estimates, training renovation evaluators, and ensuring that Zillow  
 11 Offers' standards for renovation work were being adhered to. FE-4 attended regional market  
 12 meetings as well as Renovation All Hands meetings, during which there were discussions about  
 13 Zillow's offer prices on homes, contractor shortages, Zillow Offers' backlog, and renovation costs.

14 55. Former Employee No. 5 ("FE-5") worked at Zillow from 2019 until early 2020 as  
 15 a Renovation Estimator, then as a Renovation Superintendent from early 2020 through March  
 16 2021. As a Renovation Estimator, FE-5's job was to inspect homes on which Zillow Offers had  
 17 made an initial offer and prepare a report of the estimated renovations necessary to make the home  
 18 ready for sale. As a Renovation Superintendent, FE-5's, duties included reviewing the scope of  
 19 work for Zillow Offers homes, conducting re-inspections as necessary, and working with general  
 20 contractors in a market in the Southern United States.

#### 21 IV. FACTUAL ALLEGATIONS

##### 22 A. Zillow and Its Pivot from Its Roots to Zillow 2.0

23 56. Zillow was founded in 2004 by former Microsoft executives Rich Barton  
 24 (Defendant in this action) and Lloyd Frink. The Company completed its initial public offering  
 25 (IPO) in July 2011 at a price of \$6.24 per share (split-adjusted), raising about \$80 million of capital  
 26 and trading on the Nasdaq under the ticker symbol "Z." From 2011 until August 2015, Zillow had  
 27 two classes of stock: (i) Class A common stock, which traded under the ticker symbol "Z" and  
 28 entitled holders to one vote per share; and (ii) unlisted, Class B common stock, which entitled

1 holders to ten votes per share. All shares of Class B common stock have been or are held by  
2 Defendant Barton and Zillow co-founder Lloyd Frink. In August 2015, Zillow created a new class  
3 of non-voting stock—Class C capital stock—and completed a stock dividend, granting all holders  
4 of Class A and Class B common stock two shares of Class C capital stock. Thereafter, Zillow Class  
5 C capital stock began trading under the symbol “Z” and Class A common stock began trading  
6 under the new ticker symbol “ZG.” Zillow’s Class B stock continues to be unlisted and held  
7 entirely by Barton and Frink.

8 57. During the Class Period, Zillow had three operating segments: (1) Homes;  
9 (2) Internet, Media & Technology (“IMT”); and (3) Mortgages. The Homes segment was involved  
10 in the purchase and sale of homes and included the Company’s Zillow Offers business, and also  
11 provided escrow and title services to purchasers and sellers, along with other real estate closing  
12 services through Zillow Closing Services. The IMT segment offered, among other things, Premier  
13 Agent, which provided advertising services and marketing and technology products and services  
14 to real estate agents and brokers. The Mortgage segment provided mortgage origination services  
15 through Zillow Home Loans and also sold advertising to mortgage lenders and professionals.

16 58. For most of Zillow’s more than 15-year history, the Company has been known for  
17 publishing online real estate listings and home-price estimates—called Zestimates—and seeking  
18 to profit by connecting real estate agents with potential clients. However, by 2018, growth in  
19 Zillow’s legacy, media-based operations was slowing. For example, in 2015, the Company  
20 achieved 98% year-over-year revenue growth. By the following year, 2016, year-over-year  
21 revenue growth had slowed to just 31%. Revenue growth further stagnated, growing just 27% and  
22 24% year-over-year in 2017 and 2018, respectively. Zillow’s stock price stagnated along with its  
23 slowing revenue growth. Indeed, although Zillow’s stock price (ZG) increased nearly four-fold  
24 from \$11.59 on August 1, 2011, to \$44.73 on August 1, 2014, over the next four years its stock  
25 price languished, sliding down to \$31.43 by December 1, 2018.

26 59. Against this backdrop, on April 12, 2018, the Company made a fundamental  
27 business shift and entered the “iBuyer” space—where companies use technology to make an offer  
28 on a potential seller’s home instantly—and launched the new service called Zillow Offers.

1 Through Zillow Offers, Zillow would make offers to buy homes directly from homeowners. If a  
2 homeowner accepted an offer from Zillow Offers, Zillow purchased the home, made certain repairs  
3 and updates, and listed it for sale on the open market. Zillow recognized revenue at the time of  
4 closing for each home it resold.

5 60. Launching Zillow Offers provided Zillow with a new revenue source to  
6 reinvigorate the Company's slowing top line. As CNN Business reported:

7 Before launching Zillow Offers, the company generated most of its  
8 revenue through its Premier Agent business, which sold ads and  
9 leads to real estate agents around the country. That segment of the  
business had started to slow, giving the company another incentive  
to find new revenue streams, according to experts.

10 In describing the change, Zillow explained that it "evolved [from] being a media company to  
11 delivering more of a full-stack transactional experience for home shoppers." As CNN Business  
12 further reported, "[t]he model, known as instant buying, or 'iBuying,' marked a major overhaul  
13 for Zillow's core business. Up until then, the company had operated in a purely digital realm,  
14 removed from the headaches of owning or renovating actual brick-and-mortar properties."

15 61. In addition to generating revenue through home sales, the Company also touted  
16 Zillow Offers' ability to drive growth in Zillow's other segments by attaching ancillary services  
17 to its Zillow Offers transactions. For example, the Company intended to offer its own closing  
18 services and mortgages to buyers and sellers in its Zillow Offers program. Additionally, even when  
19 a potential seller turned down a Zillow Offer, the Company would still attempt to realize revenue  
20 streams off that transaction by referring the seller to its Premier Agents.

21 62. For example, as RBC explained, "Homes provides an easier way to attach adjacent  
22 services (Attaching a Mortgage to a Zillow Owned home vs. marketing a mortgage to a customer  
23 using a Premier Agent), with high attachment rates already being exhibited within Zillow Closing  
24 Services, which has very high attach rates to Zillow Offers." Wedbush similarly reported:

25 We believe as iBuyers take greater share, and as the home  
26 transaction becomes more digitized over time ancillary revenue  
27 streams, like mortgages and seller leads, will become more  
28 attainable. We're not expecting 100% attach rates everywhere, but  
even small inroads can lead to material upside to estimates. For  
seller leads in particular, the majority of home sellers that come to  
Zillow for an offer on their home, still don't take that offer, meaning

1 Zillow has a significant opportunity to offer them leads to agents....  
2 Ancillary revenue streams like title insurance, mortgages, and lead  
3 generation will also be critical in helping drive stronger profitability  
4 and margins over time.

5 63. In announcing its pivot in April 2018, Zillow indicated that it would initiate Zillow  
6 Offers in two test markets: Las Vegas and Phoenix. By the end of 2018, Zillow had expanded its  
7 Zillow Offers operations to five metropolitan regions: Phoenix, Las Vegas, Atlanta, Denver, and  
8 Charlotte.

9 64. In February 2019, Zillow announced that Defendant Barton, Zillow's co-founder,  
10 would return as Chief Executive Officer, and Zillow's other co-founder and president, Lloyd Fink,  
11 would take over in the role of executive chairman from Barton.

12 65. This announcement coincided with great fanfare around what Barton called "Zillow  
13 2.0," which would be centered around Zillow Offers. In an interview, Barton compared Zillow's  
14 shift to Zillow 2.0 to Netflix's change to emphasize its streaming service over its DVD mailing  
15 operation. Zillow also explained that the pivot to Zillow 2.0 would allow it to significantly expand  
16 its Total Addressable Market (or "TAM"). This is because the U.S. real estate advertising market  
17 had a TAM of just \$19 billion, compared to a TAM of \$1.9 trillion for U.S. home sales.

18 66. Defendant Barton announced a goal of \$20 billion in revenue within five years and  
19 a goal of purchasing and selling 5,000 homes per month. As one market commentator reported:

20 *The company will pin its future on Zillow Offers*, a program  
21 launched last year that lets potential sellers request offers directly  
22 from Zillow. To hit the ambitious goal of \$20 billion in revenue in  
23 three to five years from the Homes segment, which includes Zillow  
24 Offers, would be a serious accomplishment. Zillow as a whole  
25 brought in \$1.3 billion in revenue for all of 2018.

26 67. The iBuyer market was already crowded by the time Zillow entered the fray. As  
27 analyst Wedbush explained in a January 2021 report, "Opendoor was the market when it first  
28 started in 2014. By 2017 it controlled ~75% as competitor Offerpad entered. Zillow then become  
the third horse in the race in 2018." In conjunction with the February 2019 announcement,  
Defendant Barton acknowledged that Zillow was behind some of its competitors, but he said that  
he is up for the challenge, adding "I love a good race."

1           68.       Thereafter, the Zillow Offers program expanded quickly and rapidly became a  
2 significant driver of revenue growth for the Company. By the end of 2019, the Company was  
3 buying and selling homes directly in 22 markets and Zillow Offers “accounted for nearly \$1.4  
4 billion of revenue for the year.” In fact, Zillow Offers accounted for roughly half of the Company’s  
5 total revenue in 2019. Moreover, by 2019, Zillow had captured approximately 15% of the iBuyer  
6 market. As analyst Canaccord Genuity wrote in January 2020, “the Homes segment continues to  
7 be the primary stock sentiment driver and will likely surpass 50% of total consolidated revenue in  
8 2020.”

9           69.       In early 2020, the COVID-19 pandemic hit, causing Zillow to temporarily pause  
10 home purchases through Zillow Offers. But by May 2020, Zillow announced that Zillow Offers  
11 would begin purchasing homes again and by August 2020, Zillow was “actively purchasing homes  
12 in all 24 markets where it previously operated.” Despite the pause, Zillow gained ground in the  
13 iBuyer market and, by the end of 2020, it controlled approximately 25% of the market. Zillow  
14 Offers continued to rapidly expand in 2021, and by the second quarter of 2021, Zillow Offers  
15 accounted for roughly 60% of total Company revenues.

16 **B.       Defendants Considered Zillow’s Ability to Accurately Predict Home Values As**  
17 **Critical to Zillow Offers’ Success**

18           70.       Given the scale at which Zillow Offers operated—buying thousands of homes a  
19 year for billions of dollars—Zillow’s ability to accurately predict home values was critical to its  
20 success and sustainability. That is because, to the extent Zillow offered too much for houses, it  
21 would be left with significant overvalued inventory on its books that could ultimately lead to  
22 massive losses. On the other hand, if Zillow offered too little, potential sellers would reject its  
23 offers and it would not achieve the home purchase volume necessary to grow its business.

24 Oppenheimer reported:

25                   As iBuyers grow their databases of comparable listings, they are  
26 able to more accurately predict the value of homes they make offers  
27 on. Not only does this prevent overpayment, which significantly  
28 weighs on margins, it prevents underpayment, which improves  
conversion rates and consumer adoption.

1           71. Traditionally, Zillow Offers used a multi-step process to determine how much to  
2 offer for each home. The first step typically began with the Zestimate, Zillow’s proprietary  
3 computer algorithm that estimates the current value of over 100 million homes in the United States.  
4 Consumers can visit Zillow’s website and look up the Zestimate for their home. In the markets  
5 where Zillow Offers operated, consumers who liked the estimate they saw could contact Zillow  
6 and request that the Company make an initial offer for the consumer’s home.

7           72. Once contacted, evaluation by human pricing experts would lead to adjustments to  
8 the initial offer price. Zillow also applied computer models to estimate how long it would take to  
9 sell the home and how the value of the home would change in that timeframe. Ultimately, Zillow  
10 would arrive at the value that it estimated it could sell the home for, and then offer that value to  
11 the potential seller as an initial offer.

12           73. If the homeowner agreed to continue with Zillow Offers after receiving the initial  
13 offer, then the Company would work on a final offer. As part of this process, Zillow would send a  
14 renovation team to perform an inspection and identify repairs needed to get the house to market  
15 (i.e., the “scope of work”). The costs of the necessary renovations would then be subtracted from  
16 the initial offer to arrive at a final offer. If the homeowner accepted the final offer, then the  
17 homeowner could choose their preferred closing date (in as little as seven days, or as many as 90  
18 days) and complete the transaction.

19           74. Given the significant role they played in valuing homes, it was critical that Zillow’s  
20 algorithms could accurately value homes. Likewise, The Wall Street Journal reported that: “The  
21 business model rested on the assumption that Zillow’s algorithm, fed by the company’s trove of  
22 data, would be able to predict home prices with pinpoint accuracy.” Wolfe Research similarly  
23 explained that: “The backbone of Zillow’s iBuying model is from the algorithms it derives from  
24 its massive sets of data. Zillow possesses among the most granular per zip code data in the  
25 country.”

26           75. In the years leading up to the Class Period, Defendants repeatedly touted the  
27 accuracy of Zillow’s algorithms and its ability to accurately price homes. For example, on  
28 February 26, 2019, Defendant Barton stated: “[W]e’re in the best position to see what’s happening

1 in the housing market on a micro basis, better than anybody else by far, because we have all the  
2 traffic. We do all those estimates. We have all these models. We see all the data in real time as it's  
3 coming in." On February 19, 2020, Barton said:

4           The unit numbers in this business are starting to build ... and [] each  
5           new unit[] that we transact[,] it pumps data and learning into the  
6           machine and the people and we're getting better at pricing homes,  
7           we're getting better at price drop[] strategy, we're getting better at  
8           all the stuff that is required to price and sell the home.

7           76.     On May 7, 2020, Defendant Barton stated: "it's just the machines getting smarter  
8     .... [W]e have just gotten a whole lot better at how to figure out what to buy, where to buy it, how  
9     to rehab it, how to appraise it, how to price drop it, and all of this is informed by data." On  
10    November 18, 2020, Barton represented: "[W]e have 15 years of Zestimate and data to inform the  
11    AI algorithms that then figure out what we should offer on Zillow Offers. So we start out with a  
12    baseline of incredible technology and customer sharing synergies there."

13           77.     Then, on February 25, 2021, Zillow announced that it had launched its Zestimate  
14    offer in certain markets, which meant that in some markets the Zestimate that consumers saw for  
15    their home on the Zillow website served as a live First Offer from Zillow Offers. In particular, in  
16    a February 25, 2021 press release, titled "Zillow Starts Making Cash Offers For the Zestimate,"  
17    Zillow reported that: "For 15 years, homeowners and home shoppers have come to rely on the  
18    Zestimate as an essential first step. This exciting advancement demonstrates the confidence we  
19    have in the Zestimate and the lengths we are willing to go to make selling your home truly seamless  
20    and easy." The release further stated: "This is a proud moment for Zillow's tech team and speaks  
21    to the advancements they've made in machine learning and AI technology."

22           78.     In the release, Zillow explicitly emphasized the reliability of its Zestimate by  
23    stating: "today's announcement highlights the growth in the reliability of the Zestimate with Zillow  
24    standing behind its valuations to provide an initial cash offer on qualifying homes through its  
25    Zillow Offers service."

26           79.     That same day, Zillow Chief Analytics Officer, Stan Humphries, was interviewed  
27    on Bloomberg television and gushed about the accuracy of Zillow's home purchase offers: "[F]or  
28    homes where we've made an offer for Zillow Offers but sellers have decided to sell their homes



1 traditionally, so not sell to us . . . , those homes are selling for less than 1% difference than our offers  
2 we made to those consumers. So we're very accurate on the homes that we're making Zillow  
3 Offers on right now."

4 80. Weeks later, on March 10, 2021, Defendant Wacksman similarly stated: "We  
5 benchmark our offers against, say, for people that turn us down, what do they go actually end up  
6 selling their home for. And it's virtually the same. It's a basis point off." Analyst Stephens echoed  
7 that the Live Zestimate "would clearly speak volumes to the efficacy of its pricing algorithms."

8 **C. Defendants Believed That Scaling Zillow Offers and Driving Down Costs Was**  
9 **Critical to Its Success**

10 81. Although Zillow Offers provided the Company with a significant revenue stream,  
11 it was not profitable in the first few years after its launch. The iBuyer segment has notoriously slim  
12 margins. That is because iBuyers typically make their money through fees akin to real estate  
13 agents' commissions, rather than through "flipping" or reselling houses for a large gain. Zillow  
14 was no exception. Indeed, the Company repeatedly stated that the goal of Zillow Offers was to be  
15 a market maker in residential real estate sales, not to make money off of the homes it purchased.  
16 For example, Defendant Barton explained on February 11, 2021, "we're not targeting making  
17 money on the transaction itself." Defendant Parker reassured the market of the "the plus or minus  
18 200 basis point guardrail we set for ourselves while working to scale the business." As reported in  
19 The Wall Street Journal's post-Class Period exposé, "Zillow intended to make no more than a 2%  
20 profit so that homeowners wouldn't feel lowballed, a problem that could discourage future sellers."  
21 Instead, Zillow Offers sought to sell homes as "quickly as possible and earn [its] money off the  
22 transaction fee."

23 82. To be sure, for Zillow, a multibillion-dollar tech company, these razor-thin margins  
24 were only attractive if it could scale its business significantly, to Zillow Offers' \$20 billion revenue  
25 target or beyond. Scale was also critical to the Company's ability to improve Zillow Offers' cost  
26 structure so that the business ultimately could be profitable one day. For example, Barton  
27 explained on February 27, 2019, that "scale matters and matters a lot" because "[s]cale is going to  
28 drive down every expense line item we have on a unit basis and on an aggregate basis in the

1 model.” Likewise, on February 12, 2021, Barton explained that “[s]cale is super important” and  
2 “as we get bigger and better at this, we’re going to see costs come down.”

3 83. Scaling quickly was also critical to Zillow’s ability to catch up with competitors  
4 and ensure that it took enough market share to ultimately turn a profit. As Barton explained on  
5 February 27, 2019: “[W]e are in a race and we’re racing to scale.... How many players can this  
6 support, given that scale matters this much? We think the scale effects are pretty strong. It may not  
7 be only one. It may be winner take most, but it’s certainly not going to be a hyper-fragmented set  
8 of competitors in our opinion. And so, we are racing in a rational way to get big.” As a result,  
9 throughout the Class Period, Defendants understood that it was critical to quickly scale Zillow  
10 Offers by rapidly buying more and more homes to drive volume. And as reported by Bloomberg,  
11 after the Class Period, the Zillow Offers “business depended on economies of scale, so Barton  
12 pushed employees to chase rapid growth.”

13 84. Given Defendants’ public statements throughout 2020, analysts closely monitored  
14 Zillow’s home unit economics for signs that it was improving its cost structure, which would  
15 ultimately provide a path to profitability. For example, analyst Guggenheim wrote in a February  
16 19, 2020, report that: “ZG has demonstrated that there is demand for the iBuyer service, but at  
17 some point it will need to show a path to profitability.” BTIG similarly reported on July 14, 2020,  
18 that: “A revenue beat is fine (particularly in this environment), but we ultimately need proof that  
19 ZG can actually make money selling houses, monetize seller leads and cross-sell ancillary  
20 products.” On August 7, 2020, Deutsche Bank noted that “until we see more sustainable signs of  
21 improvement in the unit economics here, it will be tough for investors to attribute meaningful value  
22 upside to this heavily loss-making segment.” In a same-day report, RBC similarly explained that:  
23 “Without the proven unit economics, especially in a down-market, we think the Homes business  
24 will go largely discounted.”

25 **D. Zillow Announces Positive Home Unit Economics in Two Consecutive Quarters,  
26 Sparking Positive Market Reaction**

27 85. In advance of Zillow’s fourth quarter 2021 and full year 2021 earnings call, the  
28 market continued its focus on Zillow Offers’ unit economics and profitability. For example, Truist

1 wrote in a February 5, 2021 report that: “Home sales volume, gross margin, and inventory are  
2 items to watch in iBuyer .... We expect 3.6% gross margins in the Zillow Homes segment, down  
3 30bps Q/Q and flat Y/Y.... The company expects a higher-than-normal mix of newer inventory in  
4 4Q, which could lead to modest upside to our ests for iBuyer margins.”

5 86. On February 10, 2021, Zillow announced positive home unit economics of 668  
6 basis points before interest. During a same-day earnings conference call, Zillow acknowledged  
7 that a large portion of the improvement came from increasing housing prices and represented that  
8 250 basis points of the improvement were the result of “meaningful operational progress in  
9 improving our cost per home sold.”

10 87. The market’s response was positive. For example, on February 11, 2021, Deutsche  
11 Bank wrote that Zillow had gotten “the Offers business 589bps profitable in terms of return on  
12 homes sold after interest expense, which is much faster than we had expected.” As a result,  
13 Deutsche Bank took its “Homes segment revenue and valuation up considerably, as we now have  
14 distinctly more confidence the business will be a large profit driver for Zillow.” BTIG wrote that  
15 “ZG has consistently recorded unit-level in Offers and faced questions over whether it might ever  
16 make money on a per home basis” so “[o]ne of the highlights of ZG’s 4Q was a super-sized per  
17 home profit in Offers. While some of that (OK a lot of that) was driven by surging home prices,  
18 there was real progress on unit economics below-the-hood and this quarter was a real proof point.”  
19 JMP wrote that: “Isolating this to more structural renovation and selling improvements, Zillow’s  
20 margin improved 150bps Q/Q and 220bps Y/Y. Applying these improvements across all of 2021  
21 creates a path towards Zillow Homes being operated on a profitable basis per unit going forward.”

22 88. On May 4, 2021, Zillow announced a second-straight quarter of positive home unit  
23 economics of 549 basis points before interest expense. During a same-day earnings conference  
24 call, Zillow again acknowledged that a large portion of the improvement came from “the ongoing  
25 strong housing market,” but represented that a large portion of the improvements came from  
26 “durable” operational cost improvements that Zillow had implemented: “The durable operational  
27 improvements in overall cost per home contributed 280 basis points improvement....” Defendant  
28 Parker also highlighted strong growth within the business segment, stating:

1 Growth in Zillow Offers continue to reaccelerate in Q1. We reported  
 2 Homes segment revenue of \$704 million, which exceeded the high  
 3 end of our outlook with 1,965 home sales. Resale velocity was  
 4 above our expectations. In Q1, we sold 128% of the beginning  
 5 inventory of 1,531 homes, which contributed to inventory declining  
 at the end of Q1 to 1,422 homes. Purchases increased to 1,856 homes  
 in the quarter from 1,789 homes purchased in Q4, but not quite at  
 the pace we planned as we continue to work on refining our models  
 to catch up with the rapid acceleration in home price appreciation.

6 During Q1, we continued to focus on unit costs, automation, adding  
 7 capacity and sharpening pricing models to improve offer strength as  
 8 we continue to scale. Our Q1 Zillow Offers unit economics of 549  
 9 basis points return before interest expense was above *the plus or*  
 10 *minus 200 basis point guardrails we've set for ourselves while*  
 11 *working to scale the business.* The outsized unit economic results  
 were impacted by the ongoing strong housing market, which is  
 temporal in nature. *We made progress during the quarter on*  
 12 *improving offer strength and sharpened pricing that tightened our*  
 13 *unit economics by approximately 120 basis points from that of Q4.*  
 14 *The durable operational improvements in overall cost per home*  
 15 *contributed 280 basis points improvement from Q1 2020.*

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

18 But on [Zillow Offers], in particular, Ron, we're leaning in, like --  
 19 we're leaning in. We're expanding in the 25 markets. We're heavily  
 20 staffing, as I think we made an announcement, maybe Allen just  
 21 talked about it, too. We are planning as a company. I'm hiring a net  
 22 2,000 people in 2021, and a lot of that will be for Zillow Offers. And  
 we're making other investments in [Zillow Offers] as well.

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

89. The following day, Deutsche Bank issued a report highlighting that: "importantly,  
 in our view, the company saw a continuation of durable cost savings that they discussed during  
 the 4Q20 call." Similarly, Truist reported that: "[W]e're encouraged by durable gains in home  
 acquisition and renovation costs."

1 **E. Despite Purportedly Positive Results, Defendants Decided That Zillow’s Pricing**  
2 **Model Was Underpricing Homes for the Current Economic Environment, Causing**  
3 **It to Miss Volume Targets**

4 90. As discussed above, for two quarters in a row—the fourth quarter of 2020 and first  
5 quarter of 2021—Zillow recorded outsized positive home unit economics resulting in part from  
6 housing market appreciation. On the other hand, Defendants decided that Zillow’s offers for  
7 houses were coming in too low—in the current economic environment of high home price  
8 appreciation—to drive the desired customer demand for Zillow Offers in an appreciating market.  
9 As The Wall Street Journal later reported in a post-Class Period exposé based on the account of  
10 current and former Zillow employees:

11 The first quarter delivered home-sale profits that were more than  
12 twice as high as anticipated, the company said. Zillow expected to  
13 make money primarily from transaction fees and from services such  
14 as title insurance-not from making a killing on the flip.” As a result  
15 “Zillow was also behind on its target for home purchases.

16 91. Given the importance of achieving scale, missing the home purchase volume goal  
17 created significant concern within Zillow. As The Wall Street Journal reported:

18 In the spring, ... company executives and managers came together  
19 for a tense meeting, according to a person who attended. As first-  
20 quarter numbers trickled in, it became clear that even though it was  
21 making more money than anticipated, the company was on track to  
22 significantly miss its annual target for the number of homes it  
23 wanted to buy. Worse, it was falling behind its top competitor,  
24 Opendoor. ‘This is code red,’ Joshua Swift, senior vice president of  
25 Zillow Offers, said during the virtual meeting, according to the  
26 person who attended.

27 92. Multiple accounts by former Zillow employees confirm that Zillow management  
28 decided by early 2021 that its pricing model—in an environment of high house price  
appreciation—was causing the Company to fall behind on its purchase goals. FE-2 participated in  
monthly Forecasting and Planning (“F&P”) meetings, which were attended by approximately 50  
Zillow Offers employees, including the leadership of many Zillow Offers teams, such as Krishna  
Rao, Warren Jackson, and Corey Hill. FE-2 said that Arik Prawer, the President of Zillow Homes,  
also attended some of the F&P meetings, and FE-2 believed that Jeremy Wacksman also attended  
some of the meetings. FE-2 explained that the purpose of the F&P meetings was to plan for  
operations staffing, discuss forecasts and goals tracking, and discuss product initiatives and how

1 they were expected to impact the forecasts. A primary topic of conversation during the F&P  
2 meetings, according to FE-2, was future projections and historical performance for topline  
3 numbers like home offer requests, homes under contract, and actual homes purchased.

4 93. FE-2 said that each Zillow Offers team had quarterly and yearly goals that were  
5 tracked and discussed during the monthly F&P meetings. FE-2 explained that the annual goal—  
6 called the Annual Operating Plan or “AOP”—was set at the beginning of each year and the  
7 quarterly goals were set at the beginning of each quarter.

8 94. FE-2’s team produced a forecasting dashboard called “Goals Pacing” in Tableau  
9 that was updated daily. The Goals Pacing dashboard included, among other things, home offer  
10 requests, home offers made, home offers accepted, home evaluations, home offers accepted after  
11 evaluation, and home purchases. FE-2’s team also measured the accuracy of forecasts and broke  
12 them down by day, week, month, and quarter in the Goals Pacing dashboard. Forecast and progress  
13 against goals for the metrics tracked by the Goals Pacing dashboard, including home purchasing  
14 volume, were reported up to Zillow Offers’ management via the Goals Pacing dashboard. FE-2  
15 also said that the Goals Pacing dashboard was used by many of the teams across Zillow Offers and  
16 that all Zillow Offers executives had access to the dashboard. FE-2 also knew that Krishna Rao  
17 and Warren Jackson checked the dashboard because he had received questions from them about  
18 metrics on the dashboard.

19 95. FE-2 said that during monthly F&P meetings that he attended during the first half  
20 of 2021, a frequent topic of conversation was that Zillow had missed its home purchasing goals  
21 and whether corrections were needed to Zillow’s home appreciation model. FE-2 said that Zillow  
22 tracked home appreciation from the time an offer was made until the time a purchase closed. As a  
23 result of Zillow’s review of home appreciation during this period, FE-2 said that he was informed  
24 that the Company concluded that it was “under-modeling” the level of home appreciation, and that  
25 they were making too much money on home sales and not gaining enough market share.

26 96. FE-2 was informed that Zillow Offers management discovered that Zillow Offers  
27 had been significantly underpricing homes during the first four months of 2021 and was  
28 significantly behind its AOP goal for home purchasing volume. FE-3 likewise recalled that in the

1 first quarter of 2021, Zillow was far behind on its home purchasing goals, as it was brought up on  
2 various team calls.

3 **F. Zillow Tells the Market That Zillow Has Improved Its Pricing Model to More**  
4 **Accurately Understand Market Trends, Despite Deciding to Override It**

5 97. Although Zillow posted another quarter of higher-than-expected Zillow Offers unit  
6 profitability in the first quarter of 2021, during the Company’s May 4, 2021 earnings conference  
7 call, Parker acknowledged that Zillow Offers’ home purchasing volume for the quarter was “not  
8 quite at the pace we planned,” but represented that “[w]e made progress during the quarter on  
9 improving offer strength and sharpened pricing” and “we continue to work on refining our models  
10 to catch up with the rapid acceleration in home price appreciation” to run the business with “the  
11 plus or minus 200 basis point guardrails we’ve set for ourselves while working to scale the  
12 business.”

13 98. Analysts likewise noted the volume miss, but repeated Parker’s representation that  
14 Zillow would be able to refine its models to address the issue. For example, BTIG noted that home  
15 “purchases trailed expectations and that flows through to a below-Street 2Q guide” but noted that  
16 it believed the company could quickly alleviate the issue with “more staffing” and “re-tooling of  
17 purchase models.” Oppenheimer wrote that “the Z bull case is that its brand would drive Offers  
18 traffic and conversion” but that “the company seems challenged with Zillow Offers conversions.”  
19 Canaccord Genuity reported that “the company purchased homes at a more modest pace while it  
20 refines its models to reflect the rapid acceleration of home price appreciation.”

21 99. Then, in mid-June 2021, Zillow told the market that it had improved its pricing  
22 model to “react more quickly to current market trends” and thus more accurately “[predict] a  
23 home’s current value.” In particular, on June 15, 2021, Zillow issued a press release titled “Zillow  
24 Launches New Neural Zestimate, Yielding Major Accuracy Gains.” The press release stated in  
25 relevant part:

26 Zillow today launches significant upgrades to its Zestimate® home  
27 valuation model. *The changes allow the algorithm to react more  
28 quickly to current market trends ....*

The new Zestimate algorithm leverages neural networks, the latest  
machine learning approach, and incorporates deeper history of  
property data such as sales transactions, tax assessments and public

1 records, in addition to home details such as square footage and  
2 location.

3 Neural networks are artificial intelligence systems that imitate how  
4 the human brain works. They are able to map hundreds of millions  
5 of data points efficiently, drawing connections among inputs and  
6 using the relationships formed to produce or predict an output. In  
7 the case of the Zestimate algorithm, the neural network model  
8 correlates home facts, location, housing market trends and home  
9 values.

10 *As a result of this update, the Zestimate can now react more  
11 quickly to dynamic market conditions, providing homeowners with  
12 a more accurate estimate [prediction] of a home's current value.*  
13 In addition, transition to a neural network-based model will reduce  
14 Zestimate processing time.

15 'Since we introduced the Zestimate in 2006, we have never stopped  
16 innovating in order to provide consumers with the most accurate  
17 home valuations,' said Dr. Stan Humphries, Zillow chief analytics  
18 officer and creator of the Zestimate. 'The new architecture we're  
19 debuting today represents another significant step forward in our  
20 efforts to harness big data to create more certainty for consumers,  
21 which leads to better decisions.' ...

22 As a result of the company's *increasing confidence in Zestimate  
23 accuracy*, in February Zillow began using the Zestimate as a live,  
24 initial cash offer through its home buying program, Zillow Offers.  
25 The Zestimate is an initial cash offer on about 900,000 eligible  
26 homes across 23 markets. With this latest update and increased  
27 Zestimate accuracy, the number of homes eligible for a cash offer  
28 will likely increase by 30%.

In response, Canaccord Genuity reported that:

Zillow announced significant upgrades to its Zestimate home  
valuation model in June, with the company utilizing neural networks  
to analyze additional property and transaction data during the  
calculation process, *enabling Zestimates to react to changing  
market trends faster and ultimately generating more accurate  
valuations....*

**G. Project Ketchup: To Increase Volume, Zillow Put Overlays on Top of Its Algorithm, Which Caused It to Significantly Overpay for Homes**

100. As discussed above, after the first quarter of 2021, Zillow knew it was not meeting its home purchasing goals. As a result, Zillow launched an initiative it called "Project Ketchup"—a play on the words "catch up"—in an effort to speed up the pace of home purchases. Instead of following its algorithms and disclosed pricing models and process, Zillow instead simply applied systematic "overlays" to drive up offers well above the price indicated by its algorithm and pricing



1 analysts to increase offers and boost volume. These overlays caused Zillow to significantly  
2 overpay for thousands of homes.

3 101. As The Wall Street Journal reported after the Class Period, based on interviews  
4 with current and former Zillow employees, in the Spring of 2021, “Zillow put together a plan to  
5 speed up the pace and volume of home purchases, dubbing it Project Ketchup, which employees  
6 took as a play on the team’s mission to catch up to Opendoor. Zillow planned to buy more homes  
7 by spending more money, *offering prices well above what its algorithm and analysts picked as*  
8 *market value, people familiar with the matter said.*”

9 102. The Wall Street Journal further reported that the increased offers were achieved by  
10 applying overlays, or “automatic price add-ons coded into the system”:

11 Analysts whose job it was to confirm the prices of homes found that  
12 they were routinely overruled, those people said, because the  
13 company had retooled the system to raise the analysts’ suggested  
14 prices. Automatic price add-ons coded into the company system,  
including one called the “gross pricing overlay” that could add as  
much as 7%, would boost offering prices to get more home sellers  
to say yes.

15 103. After the Class Period, Bloomberg reported that:

16 [A]fter Opendoor went public, via a special purpose acquisition  
17 company, or SPAC, Barton decided to take his BHAG [big hairy  
18 audacious goal] to the next level. Zillow introduced an initiative  
19 dubbed “Project Ketchup” to close the gap with Opendoor.  
Employees got merch to mark the occasion, including water bottles  
made up to resemble condiment containers, as well as an actual  
bottle of Heinz.

20 Bloomberg further wrote that Zillow “*raised its bids, sometimes bumping the numbers its pricing*  
21 *software spit out by tens of thousands of dollars* as part of a process known internally as ‘offer  
22 calibration.’”

23 104. Following the Class Period, Business Insider likewise published an article, titled  
24 “Zillow insiders are blaming an internal initiative called Project Ketchup for the company’s home-  
25 flipping failures,” that told a similar story based on the accounts of Zillow employees. For example,  
26 the Business Insider article reported that:

27 At the beginning of 2021, four employees told Insider, Zillow  
28 launched an initiative to supercharge its homebuying and gain  
ground on Opendoor, the nation’s largest instant buyer, or iBuyer,

1 and Zillow's chief rival in the emerging business. That effort, a play  
2 on the words "catch up," was called "Project Ketchup" internally.  
3 The plan worked but began to bleed ink as red as the condiment it  
4 was named for, employees said.

5 105. The Business Insider article further corroborated that changes made as part of  
6 Project Ketchup caused Zillow to pay too much for homes, and that the overpayment was caused  
7 not by Zillow's algorithm, but instead by "the overexuberance of human managers":

8 The employees' accounts suggested that Zillow's iBuying problems  
9 had less to do with a glitch in its computer-driven, algorithmic  
10 approach to purchasing homes or unpredictable swings in prices and  
11 more to do with the overexuberance of human managers. Employees  
12 said leaders at the company failed to heed signs that Project Ketchup  
13 was prompting it to pay too much for homes....

14 106. The article also included a picture of the Project Ketchup merchandise that Zillow  
15 provided to its employees as part of the Project Ketchup initiative:



16 107. Statements from numerous former Zillow employees confirm that Zillow launched  
17 Project Ketchup in the Spring of 2021 to catch up to its home purchasing goals and gain market  
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1 share. FE-2 said that around May or June of 2021, Zillow Offers' management said during an F&P  
2 meeting that Zillow would be "aggressively" adjusting the Company's home offer pricing upwards  
3 to try to keep up with how "hot" the housing market was at the time. FE-2 also recalled being  
4 informed during the meeting that Zillow had an increased appetite for risk. FE-2 believed that the  
5 aggressive new strategy was part of Project Ketchup. FE-2 said the shift to a more aggressive home  
6 buying strategy was done in conjunction with the Zillow executive level. FE-2 believed that Luis  
7 Poggi, Vice President of Product & Engineering at Zillow, was the architect of Project Ketchup.

8 108. FE-4 recalled first learning about Project Ketchup in a meeting in May or June  
9 2021. FE-4 understood one of the purposes of Project Ketchup to be to increase Zillow Offers'  
10 market share to catch up with competitors. FE-4 indicated that his General Manager told FE-4 that  
11 the General Manager discussed the overpayments with the Regional Manager of his area.  
12 According to FE-4, his Regional Manager reported to Josh Swift (Senior Vice President, Zillow  
13 Offers) and Judith Simon (Vice President, Field Operations).

14 109. FE-1 recalled beginning work on Project Ketchup in approximately March or April  
15 of 2021. FE-3 learned about Project Ketchup during an All Hands Call in February or March 2021  
16 timeframe, during which Simon, who led the call, explained Project Ketchup. FE-3 also said,  
17 however, that Project Ketchup "kicked in" in April 2021. FE-3 said the goal of Project Ketchup  
18 was to buy as many homes as possible. FE-3 said that through Project Ketchup, Zillow made more  
19 lucrative offers to try to get sellers to sell to Zillow. FE-3 also said, however, that it was widely  
20 known within the Company that Zillow's offers to purchase homes during Project Ketchup  
21 exceeded the worth of the homes.

22 110. According to former Zillow employees, the Company did, in fact, apply coded  
23 overlays that caused it to make offers well above what its algorithm and analysts picked as market  
24 value. FE-2 explained that over a three-month period between May and July 2021, Zillow made  
25 multiple upward adjustments to its home price offers. FE-2 believed that the adjustments amounted  
26 to a significant over-adjustment that created a cascade of problems. FE-2 said that the upwards  
27 adjustments in home offer pricing were implemented through overlays that were referred to  
28 internally as "Gross Pricing Overlays." FE-2 explained that traditionally, a pricing analyst worked

1 within an underwriting spreadsheet that was used to calculate home offer prices. FE-2 said that to  
2 adjust prices upward, Zillow applied the Gross Pricing Overlay on top of the home offer price  
3 calculated in the “underwriting spreadsheet.” FE-2 stated that Zillow did not make adjustments to  
4 its algorithms in order to increase home offer prices.

5 111. FE-2 believed that the first Gross Pricing Overlay was implemented around the end  
6 of May 2021 or the beginning of June 2021, and that it increased home offers by approximately  
7 400 basis points, on average. FE-2 said that in total he believed the Gross Pricing Overlays applied  
8 between May 2021 and July 2021 increased home offer prices by 700 to 800 basis points, on  
9 average, across all markets. FE-2 explained that the Gross Pricing Overlays were implemented  
10 differently in different regional markets, but that the basis point increase he referred to was the  
11 combined nationwide average. FE-2 recalled that one component of the Gross Pricing Overlay was  
12 called an OCS adjustment, but he could not recall what OCS stood for (though identified by  
13 another FE as the Offer Calibration System). FE-2 believed that the Pricing team was responsible  
14 for determining Gross Pricing Overlay and OCS values, and that Krishna Rao also played a role  
15 in determining those values.

16 112. FE-2 said that the unofficial end of Project Ketchup likely occurred around August  
17 2021 when Zillow Offers knew that it was going to catch up to the target pace it needed to meet  
18 its AOP home volume goal. But FE-2 said that he did not think that Zillow Offers removed the  
19 Gross Pricing Overlay as a result of reaching this goal.

20 113. FE-2 said that it was widely known throughout Zillow Offers that Zillow was using  
21 the Gross Pricing Overlay and that it was not a secretive thing. FE-2 recalled that the Gross Pricing  
22 Overlays were definitely discussed during the monthly F&P meetings. FE-2 said he would be very  
23 surprised if Barton and Parker were unaware of the Gross Pricing Overlay initiative, because it  
24 was one of the biggest pricing initiatives Zillow Offers had ever done and would have a huge  
25 impact on the business.

26 114. FE-1 said that Zillow acquisition analysts calculated home offer prices using a  
27 preprogrammed pricing spreadsheet. According to FE-1, after the acquisition analysts populated  
28 the spreadsheet with all the information for a home, the machine learning algorithm would take

1 over and provide the adjusted offer price. Starting in or around March 2021, FE-1 said that Zillow  
2 Offers began adding an “OCS”—or Offer Calibration System—value on top of the home offer  
3 prices that FE-1 calculated. FE-1 first learned of the OCS via weekly emails where he was told not  
4 to be “alarmed” if his values changed due to an OCS addition. After FE-1 calculated a home offer  
5 price, FE-1 said that an OCS value was added on top in the spreadsheet. FE-1 said that while he  
6 could alter other values in the spreadsheet, the OCS was a hard value that could not be changed.  
7 FE-1 worked with other analysts all over the country and from conversations FE-1 had with them,  
8 FE-1 understood that Zillow Offers was adding OCS values to home offer prices across the board  
9 all over the country. FE-1 believes that the OCS values were added to adjust for where the Machine  
10 Learning team believed the home values would be in 60 to 90 days, but he could not provide a  
11 specific basis for that belief.

12           115. The impact of Project Ketchup is clear in Zillow’s home purchasing volume results,  
13 as demonstrated in the chart below.

|  | 1Q20     | 2Q20     | 3Q20     | 4Q20    | 1Q21    | 2Q21    | 3Q21    | 4Q21     |
|--|----------|----------|----------|---------|---------|---------|---------|----------|
| Homes Total Revenue  | 769.9M   | 454M     | 187M     | 304M    | 704M    | 777M    | 1.2B    | 3.3B     |
| Homes Income (Loss) Before Taxes                               | -98M     | -80M     | -70M     | -67M    | -58M    | -59M    | -422M   | -342M    |
| Homes Adjusted EBITDA  | -75M     | -61M     | -59M     | -47M    | -34M    | -29M    | -381M   | -206M    |
| ZO Homes Purchased   | 1,479    | 86       | 808      | 1,789   | 1,856   | 3,805   | 9,680   | 8,594    |
| ZO Homes Sold  | 2,394    | 1,437    | 583      | 923     | 1,965   | 2,086   | 3,032   | 8,353    |
| ZO Homes in Inventory  | 1,791    | 440      | 665      | 1,531   | 1,422   | 3,142   | 9,790   | ~10,000  |
| ZO Home Acquisition Cost (% of Revenue)                        | 89.70%   | 90.20%   | 91.10%   | 85.90%  | 87%     | 87.10%  | 91.70%  | 100.80%  |
| ZO Renovation Costs (% of Revenue)                             | 4.80%    | 5%       | 4.30%    | 3.10%   | 3%      | 2.70%   | 1.90%   | 1.40%    |
| ZO Holding Costs (% of Revenue)                                | 1.30%    | 1.30%    | 1.50%    | 0.50%   | 0.60%   | 0.60%   | 0.60%   | 0.80%    |
| ZO Selling Costs (% of Revenue)                                | 4.30%    | 4.30%    | 4%       | 3.80%   | 3.80%   | 3.80%   | 3.40%   | 3.20%    |
| ZO Total Operating Costs (% of Revenue)                        |          | 100.90%  | 100.90%  | 93.30%  | 94.50%  | 94.20%  | 97.60%  | 106.20%  |
| ZO Return on Homes Sold Before Interest Expense (% of Revenue) | 4 bps    | -89 bps  | -90 bps  | 668 bps | 549 bps | 576 bps | 237 bps | -619 bps |
| ZO Interest Expense (% of Revenue)                             |          | 1.30%    | 1.50%    | 0.80%   | 0.50%   | 0.50%   | 0.50%   | 0.70%    |
| ZO Return on Homes Sold After Interest Expense (% of Revenue)  | -139 bps | -220 bps | -235 bps | 588 bps | 494 bps | 531 bps | 183 bps | -691 bps |

116. In the first quarter of 2021, Zillow purchased 1,800 homes. But by the second quarter 2021, when the overlays began in earnest, Zillow purchased 3,805 homes. By the third quarter of 2021, Zillow had purchased 9,680 homes. In other words, Zillow purchased twice as many homes in the second quarter than it did in the first quarter, and more than twice as many homes in the third quarter than it did in the second quarter. Zillow also purchased 8,594 homes in

1 the fourth quarter of 2021, a staggering number given that Zillow announced it had paused new  
2 purchases in October 2021, and therefore this was just the number of homes Zillow had under  
3 contract halfway through the third quarter.

4 117. Project Ketchup also dramatically altered Zillow’s balance sheet. For example,  
5 Zillow Homes revenue grew almost *ten* times in the span of a single year—going from \$304  
6 million in the fourth quarter of 2020 to over \$3.3 billion in the fourth quarter of 2021.

7 **H. Internally, Zillow Employees Repeatedly Raised Concerns That the Company Was**  
8 **Overpaying for Homes**

9 118. After Zillow applied the overlays on top of the algorithm to increase offers,  
10 employees across Zillow Offers repeatedly raised concerns internally that Zillow was paying too  
11 much for homes. As The Wall Street Journal later reported, “Zillow also overstretched its staff as  
12 it tried to catch up to competitors and *disregarded internal concerns that it was overpaying for*  
13 *homes*, according to former and current employees.”

14 119. Likewise, The Wall Street Journal explained that: “*Staffers grew concerned Zillow*  
15 *was paying too much*, people familiar with the matter said.... Some *Zillow employees complained*  
16 *about the pricing in company Slack channels and meetings, but their concerns went largely*  
17 *unaddressed or they were told that the model was working as intended*, several current and former  
18 employees said.”

19 120. After the Class Period, Bloomberg quoted a former Zillow employee as saying,  
20 “People would be so happy when we showed up at their door.... I could tell them, ‘Hey, I’m going  
21 to start a small fire in your yard just to see if it burns well.’ They’d be like, ‘Cool, you’re paying  
22 me \$50,000 over the value of my home.’” Bloomberg further reported that: “When staffers raised  
23 concerns with their superiors, management reassured them it was all part of the plan, former  
24 employees say.”

25 121. Former Zillow employees have confirmed that the adjustments Zillow made caused  
26 it to significantly increase its offers, and that employees internally raised concerns about the  
27 overpayments but were ignored. For example, FE-1 said that OCS increases started small, but by  
28 April and May 2021, FE-1 was seeing bigger and bigger jumps in price from the OCS add-ons.

1 FE-1 said that the OCS amounts were initially around \$10,000, but then increased thereafter. The  
2 largest OCS add-on that FE-1 recalls seeing was \$100,000. For example, FE-1 recalled that he  
3 priced a home for \$800,000 only to have a \$75,000 OCS value added on top. FE-1 said that the  
4 OCS add-ons eventually got so large that they began throwing off the home offer prices calculated  
5 by FE-1 and other members of the Acquisition Team. FE-1 said that Zillow continued to add OCS  
6 values to offers until November 2021. FE-1 said that at first, OCS values were only added to about  
7 10% of home offers, but by the Summer of 2021, OCS values were being added to almost every  
8 other home offer, and by September 2021, OCS values were added to 90% of home offers.

9 122. FE-1 said that the OCS amounts almost always meant that Zillow was overpaying  
10 for a home. FE-1 explained that part of his performance was assessed based on the accuracy of his  
11 valuations, and recalls being frustrated when large OCS values were added because it would affect  
12 his performance metrics. FE-1 also recalled being asked to conduct 60-day or 90-day look-back  
13 reviews to determine why certain houses had not sold. FE-1 always determined that while the  
14 house would have sold according to his pricing, the house did not sell because the OCS value was  
15 too high.

16 123. FE-1 told his manager, Shannon Foster, that the OCS was really increasing the price  
17 and “screwing the value,” but she never followed up. FE-1 also said that as OCS values increased  
18 over time, members of the Acquisition Team began “red flagging” and complaining to the Machine  
19 Learning team, via a “Slack” channel, that the OCS values were too high and over-adjusted too  
20 much and were “screwing” with their offer pricing. According to FE-1, the Machine Learning  
21 Team was “completely adamant” that machine learning was working as it should and the OCS  
22 amount was correct.

23 124. FE-4 also confirmed that the higher offers were discussed during regional market  
24 meetings, Renovations All Hands meetings, and at least one company-wide All Hands meeting.  
25 During a Renovations All Hands meeting in April or May 2021, FE-4 recalled hearing someone  
26 in Zillow management acknowledge paying more to acquire homes. FE-4 recalled that both Josh  
27 Swift and Judith Simon participated in the meeting, and at least one of them commented on the  
28



1 strategy of paying more nationwide to acquire more homes. FE-4 said that the reason given for the  
2 increased offer prices was to establish higher market share.

3 125. FE-4 said that starting in May 2021, the issue of Zillow overpaying for homes was  
4 brought up in regional market meetings FE-4 attended that included all of the managers in FE-4's  
5 region (e.g., General Manager, Assistant General Manager, Regional Manager, Field Managers,  
6 etc.). FE-4 recalls that during these meetings, the General Manager and Assistant General Manager  
7 in his region said that Zillow was intentionally paying too much for homes, and that the  
8 overpayment was being done at the direction of Zillow leadership. FE-4 said the fact that Zillow  
9 was overpaying on purpose was a constant topic of discussion at the regional market meetings FE-  
10 4 attended. FE-4 also recalled hearing about the increased offers on at least one company-wide All  
11 Hands meeting that was attended by Rich Barton. Yet, in spite of this "open secret," the overpaying  
12 for homes nevertheless continued. FE-4 stated that by mid-summer 2021, Zillow was over-paying  
13 \$30,000 to \$100,000 over the initial Zestimate in order to close on homes in his market in the  
14 Southeastern United States.

15 126. Around the time the adjustments were made, FE-2 also recalls asking his superior  
16 why Zillow was making such aggressive adjustments and whether it was worried about  
17 overpricing. FE-2 was told that his supervisor was not the one making the decisions, and that  
18 Zillow had an increased appetite for risk.

19 **I. Project Ketchup: To Increase Volume, Zillow Squeezed Its Contractors, Which**  
20 **Caused Contractors to Refuse Jobs and Created a Massive Backlog**

21 127. As discussed above, after a potential seller accepts a first offer from Zillow Offers,  
22 the Company then sends an inspector to inspect the house and determine what renovations are  
23 necessary to get it ready to sell. The costs of those renovations are then deducted from the Final  
24 Adjusted Offer. Prior to and during the Class Period, another way that Zillow attempted to increase  
25 its offers and drive volume was by decreasing the scope of renovations on houses as well as the  
26 prices it paid for renovations. Those changes also decreased Zillow's renovation costs, thereby  
27 positively impacting its closely-watched home unit economics.  
28

1           128. The changes were unsustainable, however, as they significantly squeezed Zillow's  
2 longtime contractors, who were being asked to renovate more homes for less money than  
3 previously charged for the same renovations. As a result, Zillow's contractors unsurprisingly  
4 began declining jobs. Without sufficient contractors to complete its renovations, Zillow's homes  
5 languished and it built up a substantial backlog. This backlog impacted Zillow's ability to quickly  
6 sell its homes, thereby increasing its holding and interest rate costs and exposing it to additional  
7 risks from broader market movements.

8           129. For example, Business Insider reported after the Class Period that: "Through its  
9 Project Ketchup initiative, employees said, *Zillow sought to increase the competitiveness of its*  
10 *bidding by offering sellers fewer deductions from the purchase price.* Homeowners were  
11 thrilled—and Zillow began to win thousands of homes." It further reported that: "The higher prices  
12 that Zillow was paying left it with precariously thin budgets for repairs, the source, along with  
13 another current employee and a contractor who works with the company, told Insider. The  
14 contractor, who also worked in Southern California, said *Zillow began to reduce the price it was*  
15 *willing to pay for specific types of renovation work and shrink the scope of many jobs.*"

16           130. Business insider further reported that:

17           Those adjustments, rolled out across the company's sprawling  
18 portfolio of homes, began to strain the relationships it had with  
19 hundreds of contractors whom it relied on to fix up the homes it  
20 bought and prepare them for resale. Employees said contractors who  
21 were used to tackling a few jobs at a time for Zillow that totaled in  
22 the tens of thousands of dollars, were asked to complete as many as  
dozens of jobs a month, each one now paying only a few thousand  
dollars. Contractors had to manage a growing number of  
construction projects across a wider geography and buy a host of  
materials for a variety of repairs. The work, employees added, was  
less profitable and more taxing logistically.

23           131. As a result, according to the Business Insider article, contractors began refusing to  
24 work with Zillow:

25           The Southern California contractor, along with another contractor in  
26 Texas, said that other iBuyers, such as Opendoor and Redfin, often  
27 paid more for the same work, which *prompted some to de-prioritize*  
28 *Zillow jobs or cut ties with the company.* "Redfin pays \$2.25 a foot  
to paint a home, and Zillow would give you \$1.35," the Southern  
California contractor said, adding that his company had renovated

1 over 300 Zillow-owned homes. ***“They had a lot of difficulty finding***  
2 ***contractors because their pricing was terrible.”***

3 The article further confirmed that Zillow’s issues with getting homes renovated was self-imposed:

4 The Zillow employee in Southern California said that much of the  
5 company’s labor problems stemmed from those strains brought on  
6 by Project Ketchup, not the economywide shortages that top Zillow  
7 executives, including CEO Rich Barton, said were responsible for  
8 its backlog of homes. Another former Zillow employee who worked  
9 with contractors across all markets told Insider that he believed  
10 Project Ketchup had hurt the firm’s reputation with contractors.  
11 “Our name on the street was squandered,” the employee said.

12 132. The Business Insider article also explained that: “With a scarcity of labor, Zillow’s  
13 problems began to cascade. ***Homes it had acquired lingered on its balance sheet for longer***  
14 ***periods because it couldn’t make the necessary repairs to bring them back to market for resale.”***

15 Additionally, Business Insider reported that: “Homebuyers also began to notice the more frugal  
16 improvements that Zillow was making to homes, which made them harder to sell. ‘The phrase that  
17 we heard over and over again was, ‘This doesn’t look like a Zillow home,’” the Southern California  
18 source said. ‘Zillow had stopped putting the work in.’”

19 133. As Business Insider reported: ***“Holding onto properties ate into the business’***  
20 ***profitability.*** The Zillow employee said the company told employees who worked within its  
21 iBuying business that ***it cost the company on average about \$225 a day to hold a property*** — a  
22 total that came from the price of the capital it used to acquire homes, plus other charges, such as  
23 taxes, insurance, and maintenance.”

24 134. These accounts are further corroborated by multiple former Zillow employees. For  
25 example, FE-5 said that after he left Zillow in March 2021, he learned from colleagues who stayed  
26 on at Zillow that around April or May 2021, the Company was lowering its rates for renovation  
27 work, squeezing its contractors. After leaving Zillow, FE-5 began working for a general contractor  
28 in August 2021 who worked with Zillow and saw for himself that Zillow had dropped its rates for  
renovation work significantly below market rates. FE-5 gave the example of wooden fencing,  
relaying that whereas Zillow had previously paid about \$22 per linear foot for fencing, in April or  
May 2021, FE-5 heard that Zillow lowered this rate to \$19 per linear foot. FE-5 understood that

1 Zillow instituted an approximately 20% drop in pricing across the board (interior paint, fencing,  
2 roofing, etc.).

3 135. Former Zillow employees also confirm that Zillow also significantly narrowed the  
4 scope of work for its renovations. FE-4 said that in late 2020, Zillow Offers instituted a “Scoping  
5 Limit” on homes that were being acquired, which included a three-tiered rating system on how  
6 much renovation work could be done on a property. FE-4 explained that Zillow would rate each  
7 property with either a “Zero Scope,” a “One Scope,” or a “Two Scope,” which dictated the scope  
8 of the work that could be done on that property. FE-4 said that a Zero Scope meant that Zillow  
9 would authorize very limited work (e.g., spot painting) on a home to get the home ready for sale.  
10 A One Scope meant Zillow would allow for minor improvements and repairs, and a Two Scope  
11 would allow for more extensive work like painting, carpeting, and flooring replacements. FE-4  
12 explained that the scope assignments for each property came from up high and he did not know  
13 how they were assigned.

14 136. FE-4 recalled that Zillow increased the percentage of houses to which it assigned a  
15 Zero Scope on at least two occasions in 2021. First, in the first quarter of 2021, FE-4 said that  
16 Zillow increased the number of houses Zero Scope houses to about 40% of houses it acquired. In  
17 mid-summer 2021, FE-4 said that Zillow again increased the number of Zero Scope houses to  
18 about 50% to 60% of the homes it acquired. FE-4 also recalls being told by his manager that Zillow  
19 was trying to reduce the scope of renovations to speed up the time between acquisition and resale.  
20 FE-4 also became aware that by June or July 2021, Zillow was also often waiving some or all of  
21 the renovation costs normally included as a reduction in setting the adjusted offer price. FE-4 said  
22 he heard of this practice in Regional Market meetings as well as in conversations with other  
23 managers. FE-4 believed that doing Zero Scope renovations would decrease the ability to resell  
24 houses, since it seemed to him like a person would be less likely to buy a house that did not have  
25 fresh paint or had stained carpets. FE-3 likewise confirmed that during Project Ketchup, Zillow  
26 began covering renovation costs on homes it purchased.

27 137. FE-3 said that in May 2021, Zillow started shrinking the size of renovation work  
28 scopes for houses. FE-3 said that the average renovation amount per house went from \$8,000–

1 \$10,000 to closer to \$4,500. FE-3 said his team came up with the directive to shrink scope sizes  
2 based on what renovations they thought Zillow was doing that it did not need in order to sell a  
3 house. FE-3 said the conversations about reducing the scope started in January or February 2021  
4 and the plan was implemented shortly thereafter. FE-3 said the shrinking of renovation scopes  
5 spread to certain other markets but not all of them.

6 138. Moreover, Plaintiff's investigation has confirmed that, as a result of the lowered  
7 prices and narrowed scopes, contractors began refusing to work for Zillow, which meant that  
8 Zillow did not have enough contractors to complete renovations. FE-4 said that by the summer of  
9 2021, many contractors were refusing to work on Zillow properties because lowered renovation  
10 rates and narrowed scopes of work meant that the contractors wouldn't make enough money on  
11 the jobs. Additionally, FE-4 said that some contractors did not want to work on Zero Scope or One  
12 Scope jobs because the finished jobs looked unprofessional and they did not want their company  
13 names associated with them. FE-4 also explained that some of the contractors who were still  
14 willing to take Zillow jobs were overloaded because of the higher volume and did not have the  
15 capacity to take on more work. FE-4 said that by July 2021, it was getting harder and harder to  
16 find contractors to do renovation jobs.

17 139. FE-5 said that before Zillow lowered the rates it paid for renovations, Zillow's  
18 renovation rates would typically be in the same price range as its competitors and contractors  
19 working for Zillow could make a small profit. However, FE-5 said that after Zillow's rate dropped,  
20 contractors could no longer make a profit. FE-5 said that once Zillow lowered rates for renovations,  
21 many of its established contractors would no longer bid on Zillow jobs. In April or May of 2021,  
22 FE-5 heard from his former colleagues still at Zillow that the Company's long-time contractors  
23 were starting to refuse to work for Zillow. FE-5 said that he was aware of at least five contractors  
24 in his areas in the Southern United States who walked away from Zillow because they couldn't  
25 make money on the jobs. FE-5 also relayed that the contractor he began working for in August  
26 2021 decided not to take on new jobs with Zillow because the work was below market rates.

27 140. FE-5 said that when contractors declined jobs with Zillow, they had to provide  
28 Zillow's Vendor Management unit with a reason for declining. As a result, Zillow would have

1 been aware that contractors were declining to take jobs because of the price points. For example,  
2 FE-5 said that when the contractor he worked for starting in August 2021 stopped accepting work  
3 from Zillow, it indicated through the Vendor Management feedback process that the reason was  
4 Zillow's low rates.

5 141. FE-4 said that the contractor shortage was discussed at both Market Level Meetings  
6 and during Renovations All Hands meetings. FE-4 recalled that at least as early as April or May  
7 2021, Zillow Offers management mentioned that they were trying to increase contractor capacity  
8 to address the backlog of homes needing renovation. By July or August 2021, FE-4 recalls one of  
9 the Zillow managers mentioning during a Renovations All Hands meeting that Zillow was going  
10 to loosen the requirements for contractors to work with Zillow, for example by lowering insurance  
11 minimums for contractors to qualify.

12 142. Former employees have also confirmed that these issues created a massive backlog  
13 of homes in need of renovation. For example, FE-4 said that when he first learned of Project  
14 Ketchup in May or June 2021, he understood the role of the Renovations Department in Project  
15 Ketchup to be increasing the speed of renovations to reduce the backlog of homes needing work.  
16 Despite the backlog that already existed, Zillow pressed ahead with acquiring new homes through  
17 Project Ketchup, which only exacerbated the problem. According to FE-3 Zillow's inability to  
18 timely renovate homes, and its backlog of homes, resulted from Project Ketchup. According to  
19 FE-3, through Project Ketchup Zillow was buying more homes than it had the capacity to renovate.  
20 FE-3 said the increase in volume began in July 2021 and continued until Zillow Offers was shut  
21 down. FE-3 said that, whereas volume in the Southwestern areas had previously been 70-80 homes  
22 per month to renovate, all of a sudden it was up to 300 homes per month.

23 143. FE-4 said that by June 2021, Zillow was buying more homes than it could possibly  
24 renovate with a quick turnaround and that there were a limited number of contractors available to  
25 complete renovation work. FE-4 first noticed the backlog in June 2021, and at that point there were  
26 approximately 700 homes in his market in the Southeastern United States that were waiting on  
27 renovations. Prior to that point in time, FE-4 said the average number of homes undergoing various  
28 stages of renovations in this market at any given time was about 300. FE-4 said that by September

1 2021, the backlog had gotten worse and there were approximately 1,000 homes in his market that  
2 needed renovation work.

3 144. FE-4 said that the backlog was not limited to just the one market where he worked  
4 in the Southeast, but rather by June 2021, the entire Zillow Offers portfolio had a backlog of homes  
5 that needed renovations. FE-4 recalled the nationwide backlog problem being discussed both at  
6 Market Level Meetings and on Renovations All Hands meetings in June 2021. The Renovations  
7 All Hands meetings were attended by everyone under the Renovations umbrella companywide,  
8 including Renovations upper-management like Josh Swift (Senior Vice President, Zillow Offers)  
9 and Judith Simon (Vice President, Field Operations). During those June 2021 meetings, FE-4  
10 recalled that there was discussion about figuring out a way to get the number of homes in the  
11 backlog down. FE-4 was also aware that other markets were experiencing a backlog based on his  
12 conversations with other Renovation employees. For example, FE-4 says he recalls that a market  
13 in the Southern United States had a backlog of 400 homes in need of renovation by September  
14 2021.

15 145. FE-3 recalled that in one of his market areas, there were hundreds of homes that  
16 were sitting vacant for months, because they could not be renovated because they did not have  
17 enough contractors to do the work. FE-3 said that he could review reports for the entire country  
18 through the Company's Tableau computer system, which included information about the homes  
19 Zillow purchased, renovation costs, how quickly renovations were completed, and when the homes  
20 were sold. FE-3 said that the Tableau system was updated constantly, almost contemporaneously.  
21 FE-3 checked the Tableau system daily to look at information regarding his area and said that the  
22 backlog was climbing continuously. FE-3 said that the information in Tableau was available all  
23 the way up to the Company's executives.

24 146. FE-3 recalled complaining to his direct supervisor, a District Manager, that Zillow  
25 did not have the capacity to handle the amount of renovations. FE-3 said that Zillow had two  
26 District Managers—one for the West Coast and one for the East Coast. FE-3's District Manager  
27 reported to Judith Simon and Josh Swift, who in turn worked directly with Defendant Barton. FE-  
28

1 3 recalls that during monthly calls with Simon and Swift, and weekly calls with FE-3's District  
2 Manager, there were constant complaints about the renovation backlog.

3 147. FE-3 also attended monthly calls that included Defendant Barton. During one of  
4 these meetings, FE-3 recalls employees asking Barton about the backlog of homes, and Barton  
5 responding by saying that the Company was coming up with a plan to address the backlog. FE-3  
6 said Barton mentioned slowing down or stopping purchases to try to clear the backlog. FE-3  
7 thought that this call took place in the July to August 2021 timeframe.

8 148. Finally, FE-3 said that Zillow did not have a large enough labor force to renovate  
9 the homes it purchased, so it started sitting on homes without selling them and, as a result, started  
10 losing money.

11 149. FE-3 said that in his areas, it cost \$100 per day for each house to just sit there. FE-  
12 4 similarly said that the carrying costs on unsold homes—for example, taxes, utilities, and  
13 insurance—can be very expensive. FE-4 recalls his General Manager mentioning in May or June  
14 2021 that it was costing Zillow about \$300 per day to maintain each unsold house.

15 150. Taking the midrange of these three values (\$208), and multiplying that by 9,700  
16 (the number of houses in Zillow's inventory at the end of the third quarter of 2021), Zillow's  
17 holding costs were about \$2 million dollars per day. So if Zillow's average holding period was  
18 extended by 14 days, for example, Zillow would be required to pay \$28 million in holding costs.  
19 An extra 30 days in the holding period could potentially expose Zillow to more than \$60 million  
20 in holding costs.

## 21 **J. Defendants Materially Misled the Market**

### 22 **1. Defendants Materially Misled the Market About the Reason for Zillow's** 23 **Increased Volume and Demand**

24 151. During Zillow's August 5, 2021 Q2 2021 earnings conference call, the Company  
25 reported increased home purchasing volume of 3,805—more than double the 1,856 homes  
26 purchased the previous quarter. Defendants did not tell investors, however, that they had achieved  
27 this volume by applying overlays to their pricing model (which already assumed as much as a 20%  
28 reduction in the cost Zillow would pay for renovations), which caused Zillow to significantly



1 overpay for homes. Instead, Defendants misrepresented that the purported significant  
2 improvements in their pricing models had driven the higher volumes and conversions in the  
3 quarter. For example, Zillow’s August 5, 2021 shareholder letter stated:

4           The record number of homes purchased was more than double that  
5           of Q1 2021 and is *a direct reflection of the customer value*  
6           *proposition, the progress we have made in strengthening our*  
7           *pricing models and automation when providing offers to*  
8           *customers. These drivers resulted in rapid gains in our customer*  
9           *conversion rate* from requested offers to signed agreements, which  
10           drove inventory to more than double from the end of Q1, with 3,142  
11           homes in inventory at the end of Q2.

12           152. Similarly, during the August 5, 2021, earnings conference call, Parker stated, “*We*  
13           *made progress this quarter in improving our pricing models, including launching the neural*  
14           *Zestimate, which sharpened our offer strength*” and “[t]hese improvements drove rapid gains in  
15           *conversion rates* in Q2 when compared to Q1, *resulting in record purchases*, more than catching  
16           up to our pre-pandemic pace.” As a result, Zillow’s executives touted their “*confidence in our*  
17           *ability to scale, resulting from the progress we have made in strengthening our pricing models*  
18           and automating the top of the funnel.”

19           153. These statements were materially false and misleading. In reality, the Company’s  
20           higher volumes and conversion rates did not result from Zillow strengthening and improving its  
21           pricing algorithms to be more accurate. Instead, and unbeknownst to investors, Zillow was simply  
22           slapping overlays on top of its model outputs in an effort to drive higher volumes. Investors were  
23           thus misled to believe that Zillow had successfully strengthened its complex “neural network”  
24           pricing model to more carefully predict and react to market trends.

25           154. During the Q2 2021 earnings conference call, Defendants also repeatedly  
26           represented that there was “*strong customer interest*” for Zillow Offers at the start of the quarter,  
27           which “*continued to accelerate* in Q2.” These statements, too, were materially false and  
28           misleading. Far from the organic and increasing “strong demand” for Zillow’s iBuying service,  
29           Defendants had, in truth, artificially created “demand” through the significant and unsustainable  
30           overpayments the Company was offering to entice sellers and drive higher home purchase  
31           volumes.

1           155. Analyst reports issued in response repeated the Company’s representations,  
 2 highlighting that Defendants’ spin worked. For example, on August 5, 2021, Piper Sandler wrote:  
 3 “Homes Segment Rebounds in 2Q: *ZG recently updated its ZOffers algorithm to adapt to a*  
 4 *rapidly changing market* after guiding down 2Q Homes revenue. We wrote about this recently  
 5 and *it appears the updates seem to be working* .... We see the growth inflection back on track.”  
 6 The following day, Barclays reported that: “Homes segment guide was well ahead (+74% or  
 7 \$645m) as *improved pricing models and increased seller interest helped more than double*  
 8 *inventory at quarter end, positioning the segment to continue to scale* ....” Berenberg wrote that:  
 9 “[i]mportantly, the company highlighted that its pricing model for Homes was improving. We  
 10 point to that as a key catalyst to delivering profitability for the segment....”

11           156. On August 6, 2021, BTIG similarly wrote that: “*getting back on track in Offers*  
 12 *after having to retool pricing algos back in 1Q was encouraging*” and gave BTIG “increased  
 13 comfort in the ability to ramp the Offers platform over the next several years.” That same day,  
 14 Wedbush reported that: “*Zillow saw a slow down in purchases in 1Q as its Offers operations*  
 15 *were too slow to react to the strong demand market, missing out on opportunities. Zillow created*  
 16 *a much more flexible and therefore faster Offers model which is driving the step-up in*  
 17 *purchases.*” On August 9, 2021, analyst Stephens reported that: “ZG accredited some of the  
 18 strength in the quarter to increased automation and its new ‘neural Zestimate,’ which is helping  
 19 the Company better price homes relative to the past methods (i.e., largely utilized historical sales  
 20 comps).”

21           **2. Defendants Materially Misled the Market About the “Durability” of Zillow’s**  
 22           **Margin Improvements**

23           157. On August 5, 2021, Zillow also reported second quarter of 2021 Zillow Offers unit  
 24 economics of positive 576 basis points. During the August 5, 2021 call, Defendant Parker  
 25 highlighted that the second quarter Zillow unit economics “were 665 basis points higher than Q2  
 26 2020” and attributed more than half of that improvement to “durable operational improvements”:  
 27 “We also note that *the 353 basis point improvement from a year ago in renovation, holding and*  
 28 *selling costs, were largely durable operational improvements.*”

1           158. Likewise, during the September 13, 2021 Piper Sandler 2021 Virtual Global  
2 Technology Conference, Wacksman again represented that “*some of those unit economic*  
3 *improvements are durable*,” explaining that “[t]he work we’re doing on more dynamic  
4 renovations, the work we’re doing on selling costs as our homes brokerage improvements roll out  
5 more gradually, you’re going to see us book those improvements as unit economic savings to the  
6 unit and be able to pass those back on to the customer and eventually to the bottom line.”

7           159. These statements were materially false and misleading because in truth, Zillow’s  
8 purported cost “improvements,” included slashing the scope of its renovation jobs and the prices  
9 it was paying to its contractors, which were causing the Company’s contractors to begin declining  
10 to take Zillow jobs. As a result, the Company had a massive backlog of renovation jobs that it  
11 could not complete, which meant that its homes could not be sold and were instead sitting on  
12 Zillow’s books accruing significant interest costs. Defendants’ statements gave the false  
13 impression that Zillow had made “durable” improvements in renovation and holding costs, when  
14 in truth Defendants knew or recklessly disregarded that the changes they made were having a  
15 material negative impact on the Company that was not durable or sustainable.

16           160. Analysts again echoed Defendants’ statements. For example, on August 9, 2021,  
17 analyst Stephens reported that: “Over half (~350bps) of the YOY boost in net margin expansion  
18 stemmed from structural benefits (lower renovation costs per unit, lower selling costs per unit,  
19 etc.)” On September 19, 2021, Piper Sandler reported that: “We recently hosted ZG COO Jeremy  
20 Wacksman for a fireside chat at the 2021 Piper Sandler TMT Conference.” It wrote that: “[o]n the  
21 ZOffers side, management feels confident about margin improvements. While home price  
22 appreciation has helped, other improvements across renovation, holding, and resale are more  
23 durable.”

#### 24 **K. The Relevant Truth Emerges**

25           161. Less than three weeks later, investors began to learn the relevant truth concealed by  
26 Defendants’ false and misleading statements.

27           162. First, on October 4, 2021, analysts from RBC Capital Markets lowered their price  
28 target for Zillow, warning that “[a]n analysis of Zillow-owned homes for sale in Phoenix” suggests

1 that Zillow Offers would likely miss quarterly expectations. Specifically, RBC Capital Markets  
2 noted that their analysis of home price reductions for Zillow’s Phoenix-area listings suggest that  
3 “the company likely still has *meaningful inventory* to work through into Q4 that *was bought at*  
4 *too high a price* and thus we would expect Q3 results and Q4 guidance to reflect this.”

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

10 164. Several weeks later, on October 17, 2021, Bloomberg reported that Zillow would  
11 pause its buying of homes in its Offers business, through at least year-end, due to capacity  
12 constraints. The article quoted a Zillow spokesperson as saying: “We are beyond operational  
13 capacity in our Zillow Offers business and are not taking on additional contracts to purchase homes  
14 at this time... We continue to process the purchase of homes from sellers who are already under  
15 contract, as quickly as possible.” Analyst Wedbush explained that: “According to the [Bloomberg]  
16 article, Zillow has run into a labor capacity issue in its iBuying business which relies on inspectors  
17 visiting a property before purchasing the home as well as contractors to make repairs like replacing  
18 appliances and repainting interiors.”

19 165. The following day, on October 18, 2021, Zillow confirmed the reports in a press  
20 release, disclosing that: “[d]ue to a backlog in renovations and operational capacity constraints,”  
21 Zillow Offers “will not sign any new, additional contracts to buy homes through the end of the  
22 year.” According to Defendant Wacksman, the Company’s Chief Operating Officer, Zillow is  
23 “operating within a labor- and supply-constrained economy inside a competitive real estate market,  
24 especially in the construction, renovation and closing spaces,” and had “not been exempt from  
25 these market and capacity issues.” In turn, Wedbush downgraded Zillow to neutral from  
26 outperform after the Company confirmed that it would temporarily pause its Zillow Offers  
27 purchases due to backlogs in renovations and operational capacity constraints.

28

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

6           167. Then, on November 1, 2021, media outlets reported that, pursuant to a detailed  
7 analysis by KeyBanc, *most* of the homes in the Zillow Offers inventory were *now worth less than*  
8 *the Company paid for them*. Specifically, KeyBanc Capital Markets found that: (1) 66% of  
9 Zillow’s homes are currently listed below the purchase price (at an average discount of 4.5% versus  
10 the purchase price); and (2) 94.3% of homes in San Diego, California, 93.4% of homes in Phoenix,  
11 Arizona, and 92.6% of homes in Mesa, Arizona, were listed below Zillow’s purchase price.

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

17           169. In response to this news, the price of Zillow common stock (ZG) declined \$20.24  
18 per share over two trading days, or more than 19%, from a close of \$105.72 per share on October  
19 29, 2021, to a close of \$85.48 per share on November 2, 2021. Similarly, the price of Zillow capital  
20 stock (Z) declined \$16.43 per share, or nearly 16%, from a close of \$103.63 per share on October  
21 29, 2021, to a close of \$87.20 per share on November 2, 2021.

22           170. After the market close on November 2, 2021, Zillow released its third quarter 2021  
23 financial results and announced that it was “wind[ing] down” Zillow Offers. Zillow further  
24 revealed that it had significantly overpaid for homes and would need to take write-downs of  
25 approximately \$569 million because Zillow expected to sell the homes in its inventory for  
26 significantly less than it had purchased them for. Indeed, during the same-day earnings conference  
27 call, Barton disclosed that the Company expected to lose -5 to -7% on the homes in its inventory.  
28 Additionally, the Company acknowledged that it would be reducing its workforce by 25%.

1           171. Zillow told the market that it was shutting down Zillow Offers because its algorithm  
 2 had not been able to accurately forecast home prices. For example, during the earnings conference  
 3 call, Barton acknowledged Zillow’s ability to execute in the Offers business was “*underpinned by*  
 4 *the need to forecast the price of homes accurately 3 to 6 months into the future,*” but  
 5 acknowledged that “[w]e have been unable to accurately forecast future home prices.”  
 6 Ultimately, Barton explained, the Company’s inability to accurately forecast home prices created  
 7 too much risk to continue: “*fundamentally, we have been unable to predict future pricing of*  
 8 *homes to a level of accuracy that makes this a safe business to be in.*” In other words, “[w]hat it  
 9 *boils down to is our inability to have confidence in pricing in the future, enough confidence to*  
 10 *put our own capital at risk that we don’t have to.*” The following day, BTIG reported that: “The  
 11 big news is if of course ZG’s plan to exit the iBuyer business given an inability to accurately  
 12 forecast home prices and the risk that creates for the business.”

13           172. The Company also pinned some of the blame for the Zillow Offers shutdown on  
 14 the labor issues and resulting renovations backlog that it had concealed during the Class Period.  
 15 For example, it noted that:

16           We have also *experienced significant capacity and demand*  
 17 *planning challenges*, exacerbated by an admittedly difficult labor  
 18 and supply chain environment. The combination of these factors has  
 19 *caused a meaningful backup in our processing of homes in the*  
 20 *Zillow pipeline*, which we announced 2 weeks ago. We judged  
 21 future significant volume volatility to be a tough impediment to  
 22 ramp a scaled operation, and any interruptions in the supply chain  
 23 like we recently experienced will result in increased holding times,  
 24 further increasing our exposure to volatility and lowering our return  
 25 on equity.

26           173. Canaccord Genuity echoed these explanations, writing in a November 2, 2021  
 27 report that: “*Challenges in forecasting future home prices* as accurately as originally anticipated  
 28 resulted in significant volatility in Homes segment unit economics, a dynamic that was exacerbated  
 by a *backlog in its renovation pipeline* caused by ongoing labor and supply chain disruptions....”  
 On November 3, 2021, Evercore wrote that Zillow had “to record a \$304MM write down on  
 inventory due to *pricing homes inaccurately.*” In a same-day report, Piper Sandler similarly

1 reported that: “**ZG overpaid for 9700 purchased homes in 3Q**, resulting in a \$304MM impairment  
2 charge (with another ~ \$250MM in charges expected next quarter on 8200 homes in contract). . . .”

3 174. On this news, the price of Zillow common stock (ZG) plummeted an additional  
4 \$19.62 per share, or approximately 23%, to close at \$65.86 per share on November 3, 2021.  
5 Similarly, the price of Zillow capital stock (Z) fell \$21.73 per share, or approximately 25%, to  
6 close at \$65.47 per share on November 3, 2021.

7 175. Analysts were shocked by the sudden announcement, and immediately bombarded  
8 Defendants Barton and Wacksman with questions that contrasted Zillow’s previous statements—  
9 made only months earlier—that Zillow Offers was fundamentally sound with its sudden shift in  
10 strategy. For example, Brent Thill from Jefferies observed: “**Just last quarter, we all heard you**  
11 **kind of commit and say you had increasing support for the business [and] that every quarter**  
12 **that passed, you had more conviction.** And then all of a sudden, the record scratches this quarter  
13 and we understand that things change. But what was it versus last quarter to now that really  
14 changed your perspective?” Ygal Arounian from Wedbush Securities also noted that: “**The way**  
15 **you’re talking about Zillow Offers is really different than how you’ve talked about it in the past,**  
16 **that it served a narrow part of your customers. And what you’ve talked about in the past is really**  
17 **a central piece to the puzzled offering, a central piece to Zillow 360, expecting it to drive partner**  
18 **leads[.]” And Andrew Boone from JMP Securities commented that “[i]t felt like [Zillow Offers]**  
19 **was a key on ramp for Zillow 360.”**

20 176. Major commentators were also stunned by the suddenness of Zillow’s move to shut  
21 down Zillow Offers, calling it a “debacle,” a “tremendous setback,” and a “major strategic retreat”  
22 that called into question Defendants’ actions and credibility. For example, the Silicon Valley  
23 Business Journal noted that Zillow’s announcement was “made [...] all the more surprising [in  
24 light of] the companying seem[ing] to put the petal to the metal on its iBuying service last quarter.  
25 The company purchased more homes in th[at] period than it had in the preceding 18 months  
26 combined.”

27 177. Business Insider described it as a “debacle, which sent its shares plummeting and  
28 **shuttered a business line that executives had, until recently, described as essential to its growth.”**

1 The Wall Street Journal reported that “Zillow conceded failure in what amounts to one of the  
 2 *sharpest recent American corporate retreats.*” The New York Times reported: “The  
 3 announcement was a *major strategic retreat and a black eye for Richard Barton*, Zillow’s chief  
 4 executive.” National Mortgage News characterized Zillow Offers as “*a financial disaster* for the  
 5 parent company.”

6 178. Wedbush concluded that the wind down “was a *drastic and unexpected move*” as  
 7 “it was *a central part of what the company was built on over the past three years.*” Barclays  
 8 wrote that “[e]xiting Homes marks a *sharp pivot in strategy vs. just a few quarters ago*, at which  
 9 time the company was encouraged with progress and leaning in on its efforts to scale the business.”  
 10 Piper Sandler wrote that “*it’s a major strategic shift and raises questions about future direction*  
 11 *and execution capability.*” It further noted that: “*management’s abrupt strategic shift leaves us*  
 12 *questioning the long-term strategy. Execution may be a problem.*” On November 5, 2021,  
 13 Berenberg cut its price target from \$162 to \$82, explaining that “*Management needs to regain*  
 14 *credibility.* On ZG’s 8/5 Q221 call, management said the company was on track to meet its long-  
 15 term iBuying goals of buying 5k a month and reaching \$20bn in revenue. However, that was no  
 16 longer the case by 11/2’s Q321 earnings as the company announced it was winding down  
 17 operations.”

18 179. Piper Sandler wrote: “In our view, the math matters little until *management takes*  
 19 *full ownership for mistakes.... Management reiterated their long-term financial targets as*  
 20 *recently as August....*” It further noted that: “*Events suggest a string of poor decision making by*  
 21 *management over a number of months*” and “the evidence is accumulating of a considerable  
 22 execution misstep. *More recent news of internal memos titled ‘Project Ketchup’ that encouraged*  
 23 *ZOffers homebuyers to accelerate purchases to ‘catch up’ with Open Door are particularly*  
 24 *worrying. Management should be accountable.*”

25 180. Stephens reported that Zillow’s announcement was “the most shocking news that  
 26 hit the U.S. real estate vertical in 2021.” Stephens specifically called out Defendants’ false and  
 27 misleading statements just a few months earlier, writing that “*it was the suddenness of the*  
 28 *announcement* that added to the shock factor as Zillow was *coming off a record rate of home*



1 *purchases, and it was just a few months removed from a quarter (2Q21) in which the Company*  
 2 *really applauded the success it was seeing in expanding ZO (the 2Q21 shareholder letter*  
 3 *highlighted Zillow’s improvements in ‘pricing models and automation when providing offers*  
 4 *to customers’).*” Stephens concluded that “[c]learly, faster is not always better and Zillow (and  
 5 the stock) paid dearly for its, arguably, *reckless approach to share gains.*”

## 6 V. DEFENDANTS’ MATERIALLY FALSE AND MISLEADING STATEMENTS

### 7 A. August 5, 2021 Q2 2021 Earnings Conference Call

8 181. On August 5, 2021, Zillow reported its second quarter 2021 financial results,  
 9 including Zillow Offers’ revenue of \$772 million (accounting for nearly 60% of total Company  
 10 revenue). In the Company’s earnings release, Defendant Barton specifically highlighted that  
 11 Zillow’s “iBuying business, *Zillow Offers, continues to accelerate* as we offer more customers a  
 12 fast, fair, flexible and convenient way to move” and “is proving attractive to sellers even in this  
 13 sizzling-hot seller’s market.”

14 182. Touting the success of Zillow Offers, the Company exclaimed in its Q2 2021  
 15 shareholder letter that “*Zillow is back on track,*” stating:

16 As we previously discussed, *the strong customer demand for*  
 17 *Zillow Offers at the start of the quarter continued to accelerate in*  
 18 *Q2, resulting in the purchase of 3,805 homes and sale of 2,086*  
 19 *homes. The record number of homes purchased was more than*  
 20 *double that of Q1 2021 and is a direct reflection of the customer*  
 21 *value proposition, the progress we have made in strengthening our*  
 22 *pricing models and automation when providing offers to*  
 23 *customers. These drivers resulted in rapid gains in our customer*  
 24 *conversion rate from requested offers to signed agreements, which*  
 25 *drove inventory to more than double from the end of Q1,* with  
 26 3,142 homes in inventory at the end of Q2.

27 The Company also promised that: “[w]e expect homes that we purchase to have tighter pricing  
 28 assumptions closer to our self-imposed guardrails of plus/minus 200 basis points before interest  
 expense over the course of the second half of the year.”

183. In his prepared remarks during Zillow’s Q2 2021 earnings conference call held the  
 same day, Defendant Barton stated:

On the sell side, *Zillow offers continued to accelerate* in Q2 with a  
*record 3,805 homes purchased. We sold 2,086 homes, generating*  
*a record \$777 million in revenue in our Home segment,* surpassing

1 our internal expectations for both revenue and EBITDA.  
 2 ***Importantly, the Zillow Offers*** value proposition of a fast, fair,  
 3 flexible and convenient close ***has proved more than durable even***  
 4 ***in the sizzling hot sellers' market.***

5 Defendant Barton continued:

6 As we discussed on our last call, ***we entered Q2 with strong***  
 7 ***customer interest in ZO [Zillow Offers], which accelerated***  
 8 ***throughout the quarter and into Q3.*** Allen will get into more  
 9 details. But as we said on our Q1 call, ***we saw significant customer***  
 10 ***demand at the beginning of Q2*** that we expected would drive  
 11 revenue growth on a lagged basis in Q3, which is now leading to our  
 12 strong Q3 outlook. And ***we continued to see strong growth in***  
 13 ***customer demand as we entered Q3*** that we expect will favorably  
 14 impact revenue in future quarters.

15 Defendant Barton also reiterated the purported strength and success of Zillow Offers, stating:

16 As I said above, ***we are now back on track with our original objective to purchase 5,000 homes***  
 17 ***per month and to generate annualized revenue of \$20 billion within the original 3- to 5-year***  
 18 ***time line.*** For Zillow Home loans, we are also on course to achieve our stated goal of 3,000  
 19 mortgages originated per month within the original time frame we set. Today, ***we are seeing more***  
 20 ***and more signals from our customers that validate our integration thesis and growth strategy.***"

21 During his prepared remarks, Defendant Parker touted the purported strength and continued  
 22 improvement of Zillow Offers' pricing models, stating:

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

184. Defendant Parker also attributed a significant portion of Zillow Offers' financial  
 performance in the quarter to, among other things, improvements in the segments' renovation  
 costs, stating:

Our Q2 Zillow Offers unit economics of 576 basis points before  
 interest expense, was above the plus or minus 200 basis point  
 guardrails we set for ourselves while working to scale the business.

1 The outsized unit economic results that were 665 basis points higher  
 2 than Q2 2020 did benefit from the ongoing strong housing market,  
 3 which we fully recognize as temporal in nature and largely  
 4 contributed to the 312 basis points lower home acquisition costs of  
 5 87.1% in Q2. *We also note that the 353 basis point improvement  
 6 from a year ago in renovation, holding and selling costs, were  
 7 largely durable operational improvements.* Clearly, some portion  
 8 of the holding costs and a smaller portion of the renovation costs  
 9 likely benefited from the strong housing market, but we also see  
 10 opportunities for continued operational improvements over time.

11 Defendant Parker further stated that:

12 In Q3, we expect our Homes segment revenue to increase  
 13 sequentially from Q2 to \$1.45 billion at the midpoint of our outlook  
 14 range. This step-up in pace demonstrates our confidence in our  
 15 ability to scale, *resulting from the progress we have made in  
 16 strengthening our pricing models and automating the top of the  
 17 funnel.*

18 185. During the question and answer portion of the call, in response to a question from  
 19 Jeffries LLC analyst Brent Thill, Defendant Barton stated: “I confess to being quite excited by  
 20 how well Zillow Offers is doing in such a hot sellers’ market ...”

21 186. Following Zillow’s Q2 2021 earnings call, analysts latched on to Defendants’  
 22 statements about Zillow Offers. For example, Piper Sandler wrote in an August 5, 2021 report:  
 23 “Homes Segment Rebounds in 2Q: *ZG recently updated its ZOffers algorithm to adapt to a  
 24 rapidly changing market after guiding down 2Q Homes revenue. We wrote about this recently  
 25 and it appears the updates seem to be working,*” and further stated that “*the Home segment looks  
 26 to have improved its purchasing model. We expect the growth cadence to get back on track.*” An  
 27 August 5, 2021 report from Piper Sandler similarly stated, “*the Home segment looks to have  
 28 improved its purchasing model. We expect the growth cadence to get back on track.*”

187. Defendants’ August 5, 2021 statements in ¶¶ 181-186, including “*Zillow is back  
 on track,*” claiming “*strong customer demand,*” highlighting “*accelerated*” and “*record number  
 of purchases,*” “*improving pricing models,*” launching the neural Zestimate, which sharpened  
 “*our offer strength*” and led to “*rapid gains in conversion rates,*” Zillow had “*sharpened our  
 offer strength*” and the “*progress we have made in strengthening our pricing models,*” as well  
 as a *353 basis point improvement in “durable” renovation cost improvement* were materially  
 false and misleading when made. First, Defendants’ statements created the false and misleading

1 impression that the growth of and demand for Zillow Offers was organic and based upon Zillow’s  
2 frequently-discussed and highlighted algorithm and pricing models. Second, Defendants’  
3 statements created the false and misleading impression that Zillow Offers’ favorable margins were  
4 the result of durable and sustainable operational and cost improvements. Defendants’ statements  
5 were further materially false and misleading when made because:

- 6 a) Zillow management overrode the offer prices generated by Zillow’s  
7 algorithms and pricing analysts, and instead tacked on “overlays” to the  
8 offer prices, significantly increasing the prices Zillow Offers would pay for  
9 homes in order to entice more home sellers to accept offers to meet Zillow’s  
10 volume goals. In the April to May 2021 time frame, Defendants initiated  
11 Project Ketchup to quickly ramp up the purchases of homes to meet the  
12 targets set in Zillow’s Annual Operating Plan. To do so, management  
13 decided to systematically overrule Zillow’s highly-touted algorithm and,  
14 unbeknownst to the market, “retooled the system to raise the analysts’  
15 suggested prices” in light of what Zillow’s management internally told  
16 employees was the Company’s “increased appetite for risk.” These  
17 automatic price add-ons were coded into the Company system, including  
18 one called the “gross pricing overlay” in order to “boost offering prices to  
19 get more home sellers to say yes.”
- 20 b) Rather than “sharpening” its offer prices through Zillow Offers’ algorithms  
21 and pricing process, Defendants simply tacked price overlays on to prices  
22 generated through those procedures to consistently increase offer prices.
- 23 c) Defendants’ claimed operational, unit economic, or renovation  
24 “improvements” were the result of non-durable and unsustainable slashing  
25 of renovation scopes and the amounts Zillow would pay contractors. In  
26 April or May 2021, Defendants began decreasing the scope of its  
27 renovations and the prices it would pay contractors for those renovations.  
28 Renovation cost-cutting and the squeeze on contractors came at a time when

1 Zillow was relying on those contractors to quickly renovate a significantly  
 2 higher volume of houses acquired by overpaying for homes using price  
 3 overlays. As early as April or May 2021, management was already looking  
 4 to increase contractor capacity to address the backlog of homes needing  
 5 renovations. By the summer of 2021, Zillow’s contractors began  
 6 deprioritizing Zillow renovations or declining jobs altogether due to  
 7 Zillow’s actions. In turn, an increasing number of homes sat idle and Zillow  
 8 built up a substantial backlog of homes that needed to be renovated. Homes  
 9 Zillow had acquired lingered on its balance sheet for longer periods because  
 10 Zillow could not make the necessary repairs to bring them back to market  
 11 for resale. This renovation inventory backlog impacted Zillow’s ability to  
 12 quickly sell its homes, thereby increasing its costs and causing Zillow to  
 13 lose money.

14 d) By failing to disclose that Zillow was overriding its algorithms and pricing  
 15 model process by applying price overlays to increase its home purchasing  
 16 volume and conversion rate, Zillow hid from the market the increased risk  
 17 it took on by deliberately over-paying for homes well beyond the prices set  
 18 by its algorithms and analyst pricing.

19 e) By failing to disclose that Zillow was reducing the scope of renovations and  
 20 cutting prices it was willing to pay contractors, Zillow hid the increased risk  
 21 of creating and exacerbating a backlog of renovations and idle home  
 22 inventory, thereby increasing costs and compounding the negative financial  
 23 impact of overpaying for homes through Zillow Offers.

24 188. Defendants’ August 5, 2021 statements in ¶¶ 181-186 attributing its “*record*  
 25 *number of homes purchased*,” “*record purchases*,” “*rapid gains in our customer conversion*  
 26 *rate*,” and “*rapid gains in our customer conversion rate*” to “*the progress we have made in*  
 27 *strengthening our pricing models*” and “*progress ... in improving our pricing models, including*  
 28 *launching the neural Zestimate, which sharpened our offer strength*,” were materially false and

1 misleading because they gave investors the false and misleading impression that the increased  
 2 volume, demand, and conversion rates for Zillow Offers were organic and based upon Zillow’s  
 3 frequently-discussed and highlighted algorithm and pricing models, rather than pricing overlays.  
 4 They were further misleading because they omitted the facts set forth in ¶ 187(a), (b), and (d).

5 189. Defendants’ August 5, 2021 statements in ¶¶ 181-186 touting “*strong customer*  
 6 *demand*” for Zillow Offers, including Defendant Barton’s statements that “*we saw significant*  
 7 *customer demand at the beginning of Q2 ... [a]nd we continued to see strong growth in customer*  
 8 *demand as we entered Q3,*” was materially false and misleading because they gave investors the  
 9 false and misleading impression that the touted “demand” for Zillow Offers’ was organic, when in  
 10 truth the Company had artificially created “demand” through the significant and unsustainable  
 11 overpayments the Company was offering to entice sellers and drive higher home purchase  
 12 volumes. They were further misleading because they omitted the facts set forth in ¶ 187(a), (b),  
 13 and (d).

14 190. In addition, Defendants’ August 5, 2021 statements in ¶¶ 181-186 assuring the  
 15 investors of the “*largely durable operational improvements*” that contributed to Zillow Offers’  
 16 financial performance, were materially false or misleading because they gave investors the false  
 17 and misleading impression that Zillow Offers had made durable and sustainable operational and  
 18 cost improvements, when in truth the changes were having a material negative impact on the  
 19 Company that was not durable or sustainable. They were further misleading because they omitted  
 20 the facts set forth in ¶ 187(c) and (e).

21 **B. September 13, 2021 Piper Sandler 2021 Virtual Global Technology Conference**

22 191. On September 13, 2021, Defendant Wacksman represented Zillow at the Piper  
 23 Sandler 2021 Virtual Global Technology Conference. During the conference, Defendant  
 24 Wacksman engaged in the following colloquy in an interview with Piper Sandler analyst Thomas  
 25 Steven Champion:

26 **CHAMPION:** Let’s switch gears and talk a little bit about the  
 27 Zoffers [Zillow Offers] business. And I think the company was able  
 28 to really effectively rebuild inventory in the second quarter. And this  
 was more of a challenge in 1Q. Maybe you could talk a little bit  
 about what changed in the interim and how the company is getting

1 better able to react to the current pricing environment with sharply  
2 rising prices.

3 **WACKSMAN:** Yes. I mean you hit on it. Some of the inventory  
4 growth timing was just based on the fastest home price appreciation  
5 we -- any of us had ever seen before and much stronger than both  
6 our internal and other third-party forecast we're seeing at the  
7 beginning of the year.... But I will say *what we've learned is that*  
8 *this business, Zillow Offers, is a business that exists across all*  
9 *housing market cycles, right?* And that's been a question that we've  
10 touched on over the past few years. Is Zillow Offers more interesting  
11 in a hot or a cold or a medium market? Zillow Offers is a really  
12 interesting opportunity for our customers in all markets. Now what  
13 customers may value continues to shift, right? *In a super hot*  
14 *market, it's not as hard to sell your house, yet we're still seeing*  
15 *record demand for Zillow Offers ....* So we were really encouraged  
16 to see while we saw these incredibly hot markets, *the strength and*  
17 *the appeal for Zillow Offers just continues to grow,* and we're even  
18 more confident now that this is going to be a service really in all  
19 weather markets.

192. Champion then asked Defendant Wacksman the following about Zillow Offers  
20 economics and margin improvements:

21 **CHAMPION:** So getting the economics right at the unit level is  
22 really paramount for this business to be successful and to hit the kind  
23 of the long-term margin targets that you've laid out. Kind of -- can  
24 you talk about that? How are you feeling about the ability to  
25 profitably run the business, especially on some of those line items  
26 below gross profit at the unit level?

27 Defendant Wacksman responded with, among other things:

28 **WACKSMAN:** And we talk about wanting to run the business at a  
plus or minus 200-basis point guardrail on the unit level. And n Q2,  
we saw unit economics of nearly 600 basis points, I think 576 basis  
points. And so, yes a good chunk of that is home price appreciation,  
right, and the market and you saw that in HPA itself, but also in kind  
of holding costs correlated with the velocity of sale. *But some of*  
*those unit economic improvements are durable, right. The work*  
*we're doing on more dynamic renovation,* the work we're doing  
on selling costs as our Homes brokerage improvements roll out more  
gradually, *you're going to see us book those improvements as unit*  
*economic savings to the unit and be able to pass those back onto*  
*the customer and eventually to the bottom line.*

193. Following the conference, Piper Sandler issued reports echoing Defendant  
Wacksman's statements. For example, in a September 19, 2021 report, Piper Sandler wrote that:  
*"Buying remains a viable opportunity in all housing markets. For instance, in a hot market,*  
*sellers appreciate the ability to walk away from the home and avoid the staging and renovation*

1 *process. In cool markets, iBuying offers certainty.*” The report continued, stating: “*On the*  
 2 *ZOffers side, management feels confident about margin improvements. While home price*  
 3 *appreciation has helped, other improvements across renovation, holding, and resale are more*  
 4 *durable.*”

5 194. Wacksman’s September 13, 2021 statements in ¶¶ 191-193 were materially false  
 6 and misleading when made for the same reasons set forth in ¶ 187(a)-(e).

7 195. Further, Wacksman’s statements in ¶ 191 that Zillow Offers was “*a business that*  
 8 *exists across all housing market cycles,*” and that “*the strength and the appeal for Zillow Offers*  
 9 *just continues to grow, and we’re even more confident now that this is going to be a service*  
 10 *really in all weather markets*” were materially false and misleading because they gave investors  
 11 the false and misleading impression that Defendants’ false and misleading statements in August  
 12 still held true and omitted the facts set forth in ¶ 187(a)-(e).

13 196. In addition, Wacksman’s statement in ¶ 192 that “*unit economic improvements are*  
 14 *durable*” was materially false or misleading when made because they gave investors the false and  
 15 misleading impression that Zillow Offers had made durable and sustainable operational and cost  
 16 improvements, when in truth the changes were having a material negative impact on the Company  
 17 that was not durable or sustainable. They were further misleading because they omitted the facts  
 18 set forth in ¶ 187(c) and (e).

## 19 VI. ADDITIONAL ALLEGATIONS OF SCIENTER

20 197. As more fully alleged above, numerous facts give rise to a strong inference that,  
 21 throughout the Class Period, Defendants knew, or were deliberately reckless in not knowing, that  
 22 the statements identified in Section V were materially false and misleading when made, and  
 23 omitted material facts necessary to make their statements not misleading. In particular,  
 24 Defendants: (i) knew and/or were deliberately reckless in not knowing that the statements issued  
 25 and disseminated in the name of the Company were materially false and misleading and/or omitted  
 26 material facts necessary to render those statements not false or misleading; (ii) knew that these  
 27 statements were issued and disseminated to the investing public; and (iii) knowingly and  
 28 substantially approved, participated, or acquiesced in, and had control and ultimate authority over,



1 the issuance or dissemination of such statements as primary violators of the federal securities laws.  
 2 In addition to the specific facts enumerated above, the following facts also support a strong  
 3 inference of scienter.

4 **A. Zillow Offers Was a Core Operation**

5 198. Zillow Offers was a core operation at Zillow, and a topic that the Executive  
 6 Defendants—the Company’s senior-most executives—regularly and repeatedly spoke to investors  
 7 on, thus demonstrating that they were knowledgeable about and actively involved in those  
 8 operations. Indeed, Zillow Offers was the centerpiece of Zillow’s transition from a media company  
 9 into a transaction-focused company offering full-service real estate transaction services. For  
 10 several years, Defendants consistently represented that Zillow Offers was the future of the business  
 11 and a key driver of the Company’s future growth and success. For example, during the March 2,  
 12 2020 Morgan Stanley Technology Conference, Defendant Barton emphasized the central nature  
 13 of Zillow Offers to the Company’s success, including the potential for Zillow to profit off the  
 14 “flywheel” of associated services implicated in buying and selling a home, stating:

15 Yes. I mean I think that we’ve done -- *if you think of the new*  
 16 *business opportunities as kind of a hub-and-spoke opportunity*  
 17 *where the hub of the transaction is Zillow Offers*, when we are  
 18 actually buying and selling homes and acting as the market maker,  
 19 we see a really big consumer demand ... and our target is to make  
 20 that hub profitable in and of itself and gain nice attractive return on  
 invested capital there by being a market maker. But then we also  
 think that we have opportunity to hang all these spokes off of the  
 hub with these adjacent businesses with things like mortgage and  
 title and escrow and perhaps moving and the other leads that come  
 off from – that flow from actually owning these transactions.

21 199. Defendants made substantially similar, substantive statements to investors  
 22 concerning Zillow Offers throughout the Class Period. *See* Section V, *supra*. As another example,  
 23 during the Q2 2021 earnings call, Defendant Parker told investors, “We made progress this quarter  
 24 in improving our pricing models, including launching the neural Zestimate, which sharpened our  
 25 offer strength.” Later during the same call, Parker also explained that: “What *we’re focused on* is  
 26 trying to get the most accurate pricing.” Further, during the September 13, 2021 Piper Sandler  
 27 conference, Defendant Wacksman signaled to investors a deep knowledge of, and focus on, the  
 28 Zillow Offers business, stating: “some of those unit economic improvements are durable, right.

1 The work we're doing on more dynamic renovation, the work we're doing on selling costs as our  
2 Homes brokerage improvements roll out more gradually, you're going to see us book those  
3 improvements as unit economic savings to the unit and be able to pass those back onto the customer  
4 and eventually to the bottom line."

5 200. Commentary from market observers further demonstrates the core nature of the  
6 Zillow Offers operation. For example, during Zillow's November 2, 2021 3Q 2021 earnings call,  
7 during which the Company announced it was terminating the Zillow Offers business, Wedbush  
8 analyst Ygal Arounian noted that Barton "talked about it in the past" that Zillow Offers was "really  
9 a central piece to the puzzled offering, a central piece to Zillow 360, expecting it to drive partner  
10 leads, expecting it, as Allen just mentioned, on purchase originations on the mortgage side."  
11 Similarly, writing about Zillow shuttering the Offers business, Business Insider noted that Zillow  
12 Offers was a "business line that executives had, until recently, described as essential to its growth."

13 201. Zillow Offers was also a significant revenue driver for the Company. Indeed, after  
14 launching in April 2018, by the end of 2019, Zillow Offers was operating in 22 markets and  
15 accounted for nearly \$1.4 billion—roughly half—of Zillow's total 2019 revenue. Market analysts  
16 emphasized that Zillow Offers was critical to the Company's valuation, underscoring the core  
17 nature of the business. For example, analyst Canaccord Genuity wrote in January 2020: "the  
18 Homes segment continues to be the primary stock sentiment driver and will likely surpass 50% of  
19 total consolidated revenue in 2020." Thereafter, Zillow Offers continued its rapid expansion, and  
20 by the second quarter of 2021, accounted for roughly 60% of total Company revenues. Further,  
21 Zillow Homes' revenue grew a staggering ten-fold from the fourth quarter of 2020 to the fourth  
22 quarter of 2021, generating \$304 million in revenues in 4Q20, and more than \$3.3 billion in  
23 revenues in the fourth quarter of 2021.

24 202. The significance of Zillow Offers to the Company's current and future performance  
25 and business prospects, and Defendants' Class Period statements to the market about Zillow  
26 Offers, supports the strong inference that Defendants knew, or were deliberately reckless in not  
27 knowing, that the Company was intentionally overpaying for homes, based on their own pricing  
28 models as expressed by current and former employees to the press and as Plaintiff's counsel noted

1 above, in its Zillow Offers business to gain market share in the iBuying space by implementing  
2 internally well-known and systemic overlays on offer prices generated through its pricing model.  
3 At the same time, the significance of Zillow Offers to the Company's current and future  
4 performance and business prospects, and Defendants' Class Period statements to the market about  
5 Zillow Offers, supports the strong inference that Defendants knew, or were deliberately reckless  
6 in not knowing, that the Company was ramping up its home acquisitions, it was materially limiting  
7 the amount of renovations permitted to be done to a home before listing it for sale, stifling  
8 contractors performing that work, and thereby leading to a growing backlog of unsold homes on  
9 Zillow's books with associated carrying costs, demonstrating that Defendants' statements  
10 identified above lacked any reasonable basis.

11 **B. Defendants Admitted Their Visibility into Zillow Offers**

12 203. Defendants repeatedly touted their visibility into Zillow Offers data, telling the  
13 market for several years that Zillow maintained near real-time data feeding into the Zillow Offers  
14 algorithms—the foundation for Zillow's offering process and suggested intimate knowledge of the  
15 offering process. For example, Barton explained in February 2019: "we're in the best position to  
16 see what's happening in the housing market on a micro basis ... better than anybody else by far  
17 because we have all the traffic, we do all these estimates, we have all these models, we see all the  
18 data in real-time as it's coming in." A year later, in February 2020, in discussing Zillow Offers,  
19 Barton stated:

20 The unit numbers in this business are starting to build.... And each  
21 new unit that we transact, it pumps data and learning into the  
22 machine and people. And we're getting better at pricing homes.  
We're getting better at price drop strategy. We're getting better at  
all the stuff that is required to price and sell the home.

23 204. In addition, during the COVID-19 pandemic in 2020, Defendants also highlighted  
24 their visibility into and intimate awareness of the data to allay market concerns about the impact  
25 COVID-19 would have on its business, publishing the following slide in a May 2020 Investor  
26 Relations Presentation, which emphasized the Company's "robust, data-based visibility,"  
27 "dashboards of 50+ datasets," and management controls, including: "Daily dashboards with  
28

1 leading indicators.” Such statements informed investors that management had access to troves of  
 2 important data about its all-important Zillow Offers business:

### 3 Powerful insights and strong leadership equip us to navigate 4 current economic environment

|  |   |  |   |  |
|--|---|--|---|--|
| <p><b>Our robust, data-based visibility and strong leadership position us well for current environment</b></p> | <p><b>Data &amp; Visibility</b></p> <ul style="list-style-type: none"> <li>• 15 years of Zestimate data</li> <li>• Thousands of requests and purchases on Zillow Offers<sup>1</sup></li> <li>• Other proprietary consumer data unavailable to market</li> </ul> | <p><b>Machine Learning</b></p> <ul style="list-style-type: none"> <li>• Informs pricing in real-time and on future transactions</li> <li>• Helps maintain margins in volatile environment</li> </ul> | <p><b>Expertise &amp; Experience</b></p> <ul style="list-style-type: none"> <li>• Traditional valuation analysis from analysts and partners</li> <li>• Economists modeled multiple COVID impact scenarios based on prior “black swan” events</li> </ul> | <p><b>Management Controls</b></p> <ul style="list-style-type: none"> <li>• Daily dashboards with leading indicators</li> <li>• Resulted in COVID taskforce assembly by February 25 and fully costed action plan by March 16</li> </ul> |
|--|---|--|---|--|



13 1. Source: Zillow Group Internal Data.  
 2. Source: Sample Zillow Group Internal dashboards.

ZILLOWGROUP

13

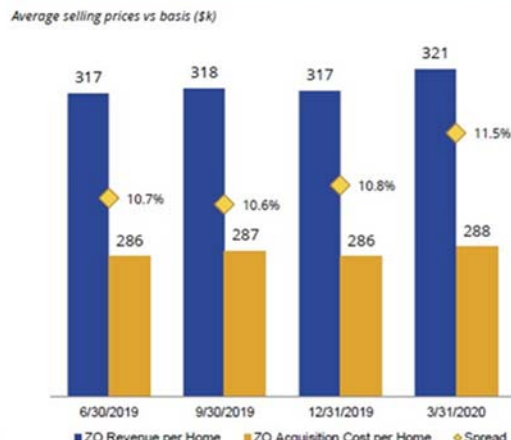
14 In the same presentation, Defendants allayed market concerns that Zillow was able to actively  
 15 manage and would not take on undisclosed risks highlighting their understanding of the residential  
 16 real estate market.

### 17 Our understanding of the residential real estate market enables us 18 to actively manage risk

|  |   |
|--|---|
| <p><b>Strong sales velocity and pricing insights drove rapid inventory decline when we paused Zillow Offers...</b></p> | <p><b>...and we maintained expected spreads on sales with healthy pricing even post-COVID onset</b></p> |
|--|---|



1. Sales velocity is calculated by dividing the number of homes sold in a given quarter by homes in inventory as of the beginning of that quarter.



March 23: announced temporary pause in home acquisitions

ZILLOWGROUP

14

1           205. Statements by Zillow’s Chief Analytics Officer, Stan Humphries, further bolster  
2 this inference. During an interview with Bloomberg on February 25, 2021, focused on Zillow’s  
3 recent announcement that it would begin using the Zestimate as an initial offer for Zillow Offers  
4 homes in certain markets, Humphries made clear his deep familiarity with the data and processes  
5 Zillow used to price homes in the Offers business. Specifically, he was asked “what are the inputs  
6 into ... guesstimating what these home are worth?” Humphries responded that Zillow’s “valuation  
7 is kind of our combination of two things—high quality data and great algorithms.” He continued,  
8 further indicating his comprehensive knowledge of Zillow Offers’ pricing process, explaining that  
9 the high-quality data was “put into algorithms, and essentially the algorithms, and I won’t bore  
10 you with all the kind of details—essentially they’re trying to do something pretty intuitive which  
11 is to find a set of homes that are similar to the house we’re trying to value then make adjustments  
12 for small differences between the subject home and its comparables, and that’s how we produce  
13 the valuation.”

14 **C. The Close Temporal Proximity Between Defendants’ Misrepresentations and the**  
15 **Partial Revelation of the Relevant Truth Supports a Strong Inference of Scienter**

16           206. The temporal proximity between Defendants’ August 5, 2021 and September 13,  
17 2021 misrepresentations and the corrective disclosures supports a strong inference of scienter. Just  
18 a couple of weeks later, on October 4, 2021, the relevant truth began to be partially revealed as  
19 analysts began to leak information that Zillow held “meaningful inventory to work through into  
20 Q4 that was bought at too high a price.”

21           207. Then on October 17, 2021—just one month after Wacksman’s statements about the  
22 positive state of affairs at Zillow Offers—Bloomberg (not Zillow) revealed that Zillow was beyond  
23 operational capacity and not taking on additional contracts, forcing Zillow, the very next day, to  
24 admit its “*backlog in renovations and operational capacity constraints*” and decision to not sign  
25 any new contracts “*through the end of the year.*”

26           208. Then on November 1, 2021, media outlets again forced Zillow’s hand, reporting  
27 that the Zillow Offers inventory was now worth less than the Company had paid and that Zillow  
28 was looking to offload 7,000 homes.

1           209. Still, the proximity of the August and September statements, and Zillow's forced  
2 and abrupt November 2, 2021 announcement that it was terminating Zillow Offers, blindsided  
3 analysts, who immediately seized on the fact that just a few months earlier, Defendants were  
4 touting Zillow Offers.

5           210. For example, during the question-and-answer portion of Zillow's third quarter 2021  
6 earnings call on November 2, 2021, Jefferies analyst Brent Thill posed the following question to  
7 Defendant Barton, calling out the fact that just a few months earlier, Zillow was bullish on the  
8 future of the Zillow Offers business:

9                   **THILL:** And can I follow up one with Rich? *Just last quarter, we*  
10                   *all heard you kind of commit and say you had increasing support*  
11                   *for the business in that every quarter that passed, you had more*  
12                   *conviction. And then all of a sudden, the record scratches this*  
13                   *quarter and we understand that things change. But what was it*  
14                   *versus last quarter to now that really changed your perspective?*  
15                   *Was there 1 or 2 events that triggered? Or just -- I think everyone*  
16                   *was trying to reconcile what you said last quarter to what just*  
17                   *happened* and sort of go back as well on that, but I want to make  
18                   sure we truly understand what you were meaning there.

19           211. Similarly, a November 3, 2021 Wedbush report, titled "A Shocking End to an  
20 Ambitious Project," noted that the termination of Zillow Offers was "a hasty exit from a business  
21 in which Zillow significantly accelerated *just this past August.*" A Barclays' report the same day,  
22 titled "Unwinding Homes, Refocus on Core," explained that Zillow's decision to "[e]xit[] Homes  
23 *marks a sharp pivot in strategy vs. just a few quarters ago,* at which time the company was  
24 encouraged with progress and leaning in on its efforts to scale the business." Berenberg Capital  
25 Markets issued a report on November 5, 2021, titled "Resetting focus on core business," that also  
26 emphasized the point that as recently as "ZG's 8/5 Q221 call, management said the company was  
27 on track to meet its long-term iBuying goals of buying 5k a month and reaching \$20bn in revenue.  
28 However, that was no longer the case by 11/2's Q321 earnings as the company announced it was  
winding down operations, following numerous warning signs from Bloomberg reports."

29           212. Piper Sandler likewise highlighted in a November 19, 2021 report, titled "ZOffers  
Epilogue: A Pro-forma Investment Framework for Core IMT," the short time period between  
Defendants' positive comments about Zillow Offers in late summer 2021 and the announcement

1 that the business was being shuttered, writing: “Management reiterated their long-term financial  
 2 targets as recently as August .... Events suggest a string of poor decision making by management  
 3 over a number of months With OPEN, OPAD and RDFN having reported, the evidence is  
 4 accumulating of a considerable execution misstep. *More recent news of internal memos titled*  
 5 *‘Project Ketchup’ that encouraged ZOffers homebuyers to accelerate purchases to ‘catch up’*  
 6 *with Open Door are particularly worrying. Management should be accountable.”*

7 213. And a February 8, 2022 report by Stephens, titled “Model Correction; Zillow  
 8 Preview Recap,” stated that:

9 Zillow’s decision to close the doors on its Zillow Offers (iBuying)  
 10 business was, perhaps, the most shocking news that hit the U.S. real  
 11 estate vertical in 2021 .... [I]t was the suddenness of the  
 12 announcement that added to the shock factor as Zillow was coming  
 13 off a record rate of home purchases, and it was just a few months  
 14 removed from a quarter (2Q21) in which the Company really  
 applauded the success it was seeing in expanding ZO (the 2Q21  
 shareholder letter highlighted Zillow’s improvements in “pricing  
 models and automation when providing offers to customers”).  
 Clearly, faster is not always better and Zillow (and the stock) paid  
 dearly for its, arguably, reckless approach to share gains.

15 214. The proximity between Defendants’ statements touting the accuracy of Zillow  
 16 Offers’ algorithms, offer prices, value proposition, and customer demand, and the “durability” or  
 17 sustainability of the segments’ financial performance and the revelation just a quarter later that the  
 18 entire Zillow Offers business was being shuttered, supports the strong inference that Defendants  
 19 knew, or were deliberately reckless in not knowing, the false and/or misleading nature and positive  
 20 representations about the Zillow Offers business as set forth above during the Class Period.

## 21 **VII. PARTIAL DISCLOSURE OF THE TRUTH, LOSS CAUSATION, AND** 22 **ZILLOW’S LOSS OF CREDIBILITY WITH THE ANALYSTS**

23 215. Defendants’ false and/or misleading statements and omissions directly and  
 24 proximately caused the economic loss suffered by Plaintiff and the Class. As a result of  
 25 Defendants’ materially false and misleading statements, omissions of fact, and fraudulent course  
 26 of conduct, Zillow’s Common Stock traded at artificially inflated prices during the Class Period.  
 27 Relying on the integrity of the market prices for Zillow Common Stock and public information  
 28 relating to Zillow, during the Class Period, Plaintiff and other Class members purchased or

1 otherwise acquired Zillow Common Stock at prices that incorporated and reflected Defendants'  
2 misrepresentations and omissions of material fact alleged herein. The prices of Zillow Common  
3 Stock significantly declined when the relevant truth concealed by Defendants' materially false and  
4 misleading statements and omissions, or the direct, proximate, and foreseeable effects thereof,  
5 were revealed, causing Plaintiff and other Class members to suffer losses. As a result of their  
6 purchases and acquisitions of Zillow Common Stock during the Class Period at artificially inflated  
7 prices and the removal of that inflation upon the disclosures set forth in this Section, Plaintiff and  
8 the Class suffered economic losses (i.e., damages) under the federal securities laws.

9       216. Zillow's Class A stock traded as high as \$112.50 on August 5, 2021, and Zillow's  
10 Class C stock traded as high as \$111.67 on August 5, 2021. Defendants' misrepresentations and  
11 omissions of material fact that were not immediately followed by an upward movement in the  
12 price of Zillow Common Stock served to maintain the inflation in the price of Zillow Common  
13 Stock.

14       217. Had Defendants been truthful about the state of the Zillow Offers business, Plaintiff  
15 and other Class members would not have purchased or otherwise acquired their Zillow Common  
16 Stock at the artificially inflated prices at which they traded. It was entirely foreseeable to  
17 Defendants that misrepresenting and concealing material facts from the public would artificially  
18 inflate the price of Zillow Common Stock and that the revelation of the relevant truth concealed  
19 by those misrepresentations and omissions would cause Zillow's Common Stock prices to decline.  
20 The economic losses (i.e., damages suffered by Plaintiff and other members of the Class) were a  
21 direct, proximate, and foreseeable result of Defendants' materially false and misleading statements  
22 and omissions of material fact.

23       218. Plaintiff and other Class members suffered actual economic loss and were damaged  
24 when the material facts and/or foreseeable risks concealed or obscured by Defendants'  
25 misrepresentations and omissions were partially revealed and/or materialized through the  
26 disclosure of new information concerning Zillow on four dates: October 4, 2021; October 17-18,  
27 2021; November 1, 2021; and November 2, 2021.

28



1 **A. October 4, 2021**

2 219. On October 4, 2021, analysts from RBC Capital Markets lowered their price target  
3 for Zillow, warning that “[a]n analysis of Zillow-owned homes for sale in Phoenix” suggests that  
4 Zillow Offers would likely miss quarterly expectations. Specifically, RBC Capital Markets did an  
5 in-depth “analysis of 32 live Phoenix area homes” and concluded that home price reductions in  
6 those listings suggested that “the company likely still has *meaningful inventory* to work through  
7 into Q4 that was *bought at too high a price* and thus we would expect Q3 results and Q4 guidance  
8 to reflect this.” On this news, which partially revealed the material facts and/or foreseeable risks  
9 concealed or obscured by Defendants’ misrepresentations and omissions, the price of Zillow  
10 Common Stock (ZG) declined \$5.72 per share, or more than 6%, from a close of \$91.40 per share  
11 on October 1, 2021, to a close of \$85.68 per share on October 4, 2021. Similarly, the price of  
12 Zillow Capital Stock (Z) declined \$4.98 per share, or approximately 5.5%, from a close of \$90.36  
13 per share on October 1, 2021, to a close of \$85.38 per share on October 4, 2021.

14 220. Zillow’s Common Stock prices remained inflated, however. Indeed, other analysts  
15 disagreed with RBC’s conclusions. For example, that same day, analyst BTIG issued a report based  
16 on its “own data (2 independently derived datasets) and c[a]me to a different conclusion.” More  
17 specifically, BTIG wrote that: “[t]hird-party data has sparked debate around whether ZG might be  
18 headed towards a miss on iBuyer revenue in 3Q, but our tracking points to segment revenue at or  
19 above the high-end of guidance.”

20 **B. October 17-18, 2021**

21 221. Several weeks later, on October 17, 2021, Bloomberg reported that Zillow would  
22 pause its buying of homes in its Zillow Offers business, through at least year-end, due to capacity  
23 constraints. The article quoted a Zillow spokesperson as saying: “We are beyond operational  
24 capacity in our Zillow Offers business and are not taking on additional contracts to purchase homes  
25 at this time.... We continue to process the purchase of homes from sellers who are already under  
26 contract, as quickly as possible.” Analyst Wedbush explained that: “According to the [Bloomberg]  
27 article, Zillow has run into a labor capacity issue in its iBuying business which relies on inspectors  
28 visiting a property before purchasing the home as well as contractors to make repairs like replacing

1 appliances and repainting interiors.” Wedbush further noted that: “[t]his would be a material  
2 *negative development in our view as much of Zillow’s growth, including in Premier Agent,*  
3 *would hinge on the success of Zillow Offers.*” Wedbush also explained: “*The core issue at hand*  
4 *for Zillow seems to be labor shortages impacting capacity constraints, but particularly around*  
5 *the renovation piece of the transaction.* That issue should theoretically translate to Opendoor as  
6 well, particularly since it is ~2x the volume of Zillow right now in more markets. *But the news*  
7 *report also includes a comment from an Opendoor source that it is ‘open for business’ indicating*  
8 *it is not seeing any impact.* That could imply a number of things, from Opendoor potentially  
9 spending more to hire contractors, to just generally running more efficient operating capabilities.  
10 If the latter is the case then *Opendoor can gain significant share while Zillow is out of the market,*  
11 *further strengthening its lead.*”

12 222. The following day, on October 18, 2021, Zillow confirmed the reports in a press  
13 release, disclosing that: “Due to a *backlog in renovations and operational capacity constraints,*”  
14 Zillow Offers “will not sign any new, additional contracts to buy homes through the end of the  
15 year.” According to Defendant Wacksman, the Company’s Chief Operating Officer, Zillow was  
16 “operating within a labor- and supply-constrained economy inside a competitive real estate market,  
17 especially in the construction, renovation and closing spaces,” and had “not been exempt from  
18 these market and capacity issues.”

19 223. On this news, which partially revealed the material facts and/or foreseeable risks  
20 concealed or obscured by Defendants’ misrepresentations and omissions, the price of Zillow  
21 Common Stock (ZG) declined \$8.84 per share, or more than 9%, from a close of \$94.30 per share  
22 on October 15, 2021, to a close of \$85.46 per share on October 18, 2021. Similarly, the price of  
23 Zillow Capital Stock (Z) declined \$8.97 per share, or more than 9%, from a close of \$94.97 per  
24 share on October 15, 2021, to a close of \$86.00 per share on October 18, 2021.

25 224. In an October 18, 2021 report, BTIG wrote that “ZG is hitting pause on signing  
26 new iBuyer contracts through year end.” It further noted that “[w]hile ZG uses algorithms to inform  
27 initial offers, *it needs people to inspect homes and complete renovations and that is where [] the*  
28 *bottleneck appears to be,*” and that “[p]ausing on new contracts will be a significant drag on 1H22

1 iBuyer revenue (BTIGe \$3.5B) and it will likely take into 2H22 to rebuild inventory.” BTIG also  
2 indicated that “[t]he two questions we are getting from investors is whether the pause might also  
3 be due to eroding unit economics (our data is not encouraging) and whether Opendoor (OPEN,  
4 Neutral) might be experiencing similar issues (not that we can see).” It concluded that “[o]ur bias  
5 at this point is that this may be more of ZG-specific issue.” In a same-day report, Piper Sandler  
6 wrote that “Over the weekend, reports surfaced that ZG was pausing home buying within the  
7 ZOffers unit. The company confirmed the reports this morning citing capacity constraints on labor  
8 and materials.” It further noted, however, that “[f]ollowing this morning’s release, we find  
9 ourselves with more questions than answers” and “*it’s also possible that ZG’s home-buying*  
10 *pricing algorithm is not working optimally.*” Piper Sandler noted that as a result of the news,  
11 “Shares are down ~10% this morning, and we expect the stock to be under pressure in trading  
12 today. We will concede less confidence in our forecasts and reflect this in our valuation view by  
13 reducing the multiple we ascribe to the Homes segment from 3.0x ‘22 revenue to 0.75x.”

14 225. Zillow’s Common Stock prices remained inflated, however. In fact, some other  
15 analysts viewed the pause as a positive indicator of demand for Zillow Offers. For example, RBC  
16 wrote in an October 17, 2021 report that the news was “noise, if not a positive long-term sign,  
17 given *it indicates stronger-than-expected inbound demand from homeowners* and Zillow’s likely  
18 buying ahead-of expectations.” On October 18, 2021, analyst JMP likewise reported that “[t]his  
19 morning, Zillow Group announced that Zillow Offers has paused making new home acquisition  
20 offers for the remainder of the year as the company works through its backlog of renovations” and  
21 “*we view this as a sign of demand.*” In a same-day report, Berenberg reiterated its “Market  
22 Outperform” rating, writing that the news might simply indicate that Zillow had met its volume  
23 goals: “In 2019, the company indicated it was aiming to purchase 5,000 homes per month.  
24 Additionally, on the Q221 earnings call, management reiterated that long-term goal, stating ‘we  
25 are now back on track with our original objective to purchase 5,000 homes per month ... within  
26 the original three to five-year timeline.’ *In our view, this pause in purchases could mean ZG has*  
27 *reached an interim milestone in its iBuying business.*” Stephens wrote that “we do not find this  
28

1 all too troubling. In addition, *we do like that ZG is taking on the iBuying expansion in what*  
2 *appears to be a disciplined fashion.*”

3 **C. November 1, 2021**

4 226. Leading into the Company’s third quarter 2021 earnings call, investors were eager  
5 for clarity from the Company on the reasons for the iBuyer pause and when it would resume  
6 purchasing homes. For example, in an October 31, 2021 report, Canaccord Genuity wrote:  
7 “Investors will be looking for additional color on when Zillow began to experience the  
8 aforementioned supply constraints along with a timeline for when it will resume home purchases.”  
9 In a same-day report, Truist reported: “We expect Homes segment to be the key area of discussion  
10 for the call, and expect mgt to provide clarity on reasons for the recent pause in home purchases,  
11 timeline for resumption and P&L implications.”

12 227. On November 1, 2021, media outlets, including MarketWatch and the Los Angeles  
13 Times reported that, pursuant to a detailed analysis by KeyBanc on October 31, 2021, most of the  
14 homes in Zillow Offers inventory were now worth less than the Company paid for them, and that  
15 Zillow was looking to sell off 7,000 homes. In its October 31 analysis, KeyBanc concluded:  
16 “Zillow may have leaned into home acquisition at the wrong time” given that most of the homes  
17 in the Zillow Offers inventory were now worth less than what the Company paid for them.  
18 Specifically, KeyBanc found that: (1) 66% of Zillow’s homes are currently listed below the  
19 purchase price (at an average discount of 4.5% versus the purchase price); and (2) 94.3% of homes  
20 in San Diego, California, 93.4% of homes in Phoenix, Arizona, and 92.6% of homes in Mesa,  
21 Arizona, were listed below Zillow’s purchase price.

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

27 229. In response to this news, which partially revealed the material facts and/or  
28 foreseeable risks concealed or obscured by Defendants’ misrepresentations and omissions, the

1 price of Zillow Common Stock (ZG) declined \$20.24 per share over two trading days, or more  
2 than 19%, from a close of \$105.72 per share on October 29, 2021, to a close of \$85.48 per share  
3 on November 2, 2021. Similarly, the price of Zillow Capital Stock (Z) declined \$16.43 per share,  
4 or nearly 16%, from a close of \$103.63 per share on October 29, 2021, to a close of \$87.20 per  
5 share on November 2, 2021.

6 230. In a November 1, 2021 article, titled “Zillow stock dives after analyst highlights  
7 two-thirds of homes bought are underwater,” MarketWatch placed blame for the stock price  
8 decline squarely on the news that Zillow had overpaid for homes: “Shares of Zillow Group Inc.  
9 took a dive Monday, after KeyBanc analyst Edward Yruma highlighted how most of the homes  
10 the real estate services company purchased, with an aim to flip them, were now worth less than  
11 what they paid for them.”

12 **D. November 2, 2021**

13 231. After the market close on November 2, 2021, Zillow released its third quarter 2021  
14 financial results and announced that it was “wind[ing] down” the Zillow Offers program and would  
15 be reducing its workforce *by 25%*. In doing so, Zillow revealed that it would need to take *write-*  
16 *downs of approximately \$569 million* because Zillow expected to sell the homes in its inventory  
17 for significantly less than it had purchased them for. Indeed, during the same-day earnings  
18 conference call, Barton disclosed that the Company “expect[ed] unit economics to be between  
19 negative 500 to negative 700 basis points.”

20 232. During the same call, Parker provided “additional details behind the inventory  
21 valuation process and the recognition and timing of losses. For inventory on our balance sheet, at  
22 period end, we compare our cost basis, our purchase price of inventory and other capitalized  
23 inventory costs to the estimated net realizable value, our estimated future selling price of those  
24 homes less estimated cost to sell. This resulted in the recognition of a *\$304 million inventory*  
25 *write-down included in Homes segment cost of revenue in Q3. We expect to recognize additional*  
26 *inventory losses in Q4 of approximately \$240 million to \$265 million.* These estimated losses  
27 primarily relate to homes that were under contract to purchase as of the end of Q3 that we expect  
28 to acquire during Q4 and that we expect to resell for less than purchased.”

1           233. Moreover, Zillow disclosed that “we expect to record additional pretax charges of  
2 approximately \$175 million to \$230 million related to the wind-down of Zillow Offers operations,  
3 primarily in Q4 and the first half of 2022. These charges are expected to include certain employee  
4 retention and termination costs, cost to exit contractual obligations, including borrowing and lease  
5 arrangements and write-offs of long-lived assets.”

6           234. Zillow further revealed that it was shutting down Zillow Offers because its  
7 algorithm had not been able to accurately forecast home prices. For example, during the earnings  
8 conference call, Barton stated: “When we decided to take a big swing on Zillow Offers 3.5 years  
9 ago, our aim was to become a market maker, not a market risk taker. And this was *underpinned*  
10 *by the need to forecast the price of homes accurately 3 to 6 months into the future.*” Yet, he  
11 disclosed: “*We have been unable to accurately forecast future home prices* at different times in  
12 both directions by much more than we modeled as possible, with Zillow Offers unit economics on  
13 a quarterly basis swinging from plus 576 basis points in Q2 to an expected minus 500 to minus  
14 700 basis points in Q4. Put simply, our observed error rate has been far more volatile than we ever  
15 expected possible and makes us look far more like a leveraged housing trader than the market  
16 maker we set out to be.”

17           235. Ultimately, Barton explained, the Company’s inability to accurately forecast home  
18 prices created too much risk to continue: “With the price forecasting volatility we have observed  
19 and now must expect in the future, we have determined that the scale would require too much  
20 equity capital, create too much volatility in our earnings and balance sheet and ultimately result in  
21 a far lower return on equity than we imagined.” He likewise noted that the price forecasting  
22 accuracy “volatility contributed to operational volatility and cash flow and balance sheet volatility  
23 that is beyond the tolerance level that we are comfortable with moving forward.” In other words,  
24 “*fundamentally, we have been unable to predict future pricing of homes to a level of accuracy*  
25 *that makes this a safe business to be in.*” Barton further explained that given the inaccuracies in  
26 the forecast there, was “a high likelihood, at some point, of putting the whole company at risk, not  
27 just the business.” He concluded that: “*What it boils down to is our inability to have confidence*  
28 *in pricing in the future, enough confidence to put our own capital at risk that we don’t have to.*”

1           236. During the call, analyst Ryan McKeveny from Zelman & Associates LLC noted  
2 that home prices were “still going up, albeit at a much slower pace,” and asked how much of Zillow  
3 Offers’ “volatility and the unit margin swing” were related to “the forecasting side of things”  
4 “versus a very volatile swing in natural prices within the broader housing market.” In response,  
5 Barton again placed the blame squarely on the Company’s inability to accurately price homes: “It  
6 was -- forecasting volatility, Ryan, is the short answer.”

7           237. The Company also pinned some of the blame for the Zillow Offers shutdown on  
8 the labor issues and resulting renovations backlog that it had concealed during the Class Period.  
9 For example, it noted: “We have also *experienced significant capacity and demand planning*  
10 *challenges*, exacerbated by an admittedly difficult labor and supply chain environment. The  
11 combination of these factors has *caused a meaningful backup in our processing of homes in the*  
12 *Zillow pipeline*, which we announced 2 weeks ago. We judged future significant volume volatility  
13 to be a tough impediment to ramp a scaled operation, and any interruptions in the supply chain like  
14 we recently experienced will result in increased holding times, further increasing our exposure to  
15 volatility and lowering our return on equity.”

16           238. On this news, which partially revealed the material facts and/or foreseeable risks  
17 concealed or obscured by Defendants’ misrepresentations and omissions, the price of Zillow  
18 common stock (ZG) plummeted an additional \$19.62 per share, or approximately 23%, to close at  
19 \$65.86 per share on November 3, 2021. Similarly, the price of Zillow capital stock (Z) fell \$21.73  
20 per share, or approximately 25%, to close at \$65.47 per share on November 3, 2021.

21 **E. Analysts Were Shocked and Called for Management Accountability**

22           239. The response to Defendants’ disclosures was swift and severe. Market  
23 commentators noted the significant negative impact that the shutdown would have on Zillow’s  
24 overall business, given that Zillow Offers was a “central piece” of Zillow’s strategy that  
25 Defendants had described as “essential to its growth.” For example, during the Q3 2021 earnings  
26 conference call, an analyst from Wedbush noted: “The way you’re talking about Zillow Offers is  
27 really different than how you’ve talked about it in the past, that it serves a narrow part of your  
28 customers. And *what you’ve talked about in the past is really a central piece to the puzzled*

1 *offering, a central piece to Zillow 360, expecting it to drive partner leads, expecting it, as Allen*  
 2 *just mentioned, on purchase originations on the mortgage side.* So it does feel like there's a little  
 3 bit of a *hole here in the middle of the vision.*"

4 240. During the call, Brent John Thill of Jefferies LLC similarly noted that Defendants  
 5 had very recently been singing a very different tune:

6 *Just last quarter, we all heard you kind of commit and say you had*  
 7 *increasing support for the business in that every quarter that*  
 8 *passed, you had more conviction.* And then all of a sudden, the  
 9 record scratches this quarter and we understand that things change.  
 10 But what was it versus last quarter to now that really changed your  
 11 perspective? Was there 1 or 2 events that triggered? Or just -- I think  
 12 *everyone was trying to reconcile what you said last quarter to what*  
 13 *just happened and sort of go back as well on that, but I want to*  
 14 *make sure we truly understand what you were meaning there.*

15 241. Following the Q2 2021 earnings call, analysts likewise place the blame for the  
 16 shutdown on the Company's inability to accurately price homes. For example, in a November 2,  
 17 2021 report, Berenberg wrote: "[T]he company noted that because of the difficulties in forecasting  
 18 home prices, the scale necessary to generate the targeted returns would necessitate greater capital  
 19 resources and could contribute even more volatility to earnings." Canaccord Genuity echoed these  
 20 explanations, writing in a November 2, 2021 report that "[c]hallenges in forecasting future home  
 21 prices as accurately as originally anticipated resulted in significant volatility in Homes segment  
 22 unit economics, a dynamic that was exacerbated by a backlog in its renovation pipeline caused by  
 23 ongoing labor and supply chain disruptions."

24 242. The following day, BTIG reported: "The big news is if of course ZG's plan to exit  
 25 the iBuyer business given an inability to accurately forecast home prices and the risk that creates  
 26 for the business." The Wall Street Journal reported: "Mr. Barton admitted that the company's  
 27 algorithm had failed to accurately predict swings in home prices, upward and downward."

28 243. On November 3, 2021, Evercore wrote that Zillow had "*to record a \$304MM write*  
 29 *down on inventory due to pricing homes inaccurately.*" In a same-day report, Piper Sandler  
 30 similarly reported that "*ZG overpaid for 9700 purchased homes in 3Q,* resulting in a \$304MM  
 31 impairment charge (with another ~ \$250MM in charges expected next quarter on 8200 homes in  
 32 contract)." Truist reported that "[a]s a result of *overly aggressive home acquisition efforts driven*



1 *by an inability to forecast housing prices*, ZG was negatively impacted by a \$304M write-down  
2 on inventory owned at the end of 3Q.”

3 244. Also on November 3, 2021, Barclays issued a report lowering its price estimates  
4 and wrote: “We would not be surprised to see some downgrades as well, as iBuying was a key bull  
5 thesis. As investors refocus on core IMT, growth normalizing/slowing may give pause, and it’s  
6 likely the stock underperforms near-term as the investor base turns over.” Barclays continued,  
7 writing that “[e]xiting Homes *marks a sharp pivot in strategy vs. just a few quarters ago, at which*  
8 *time the company was encouraged with progress and leaning in on its efforts to scale the*  
9 *business.*” RBC wrote: “Zillow’s unexpected iBuying exit throws cold water on our downfunnel  
10 bull thesis and clear path to expanding monetization opportunities.” Truist similarly reported:  
11 “[W]e believe exit from iBuyer *removes a NT growth catalyst* and creates uncertainty around  
12 efforts to drive monetization through additional services (e.g. mortgage, title/escrow). Business  
13 Insider described it as a “*debacle*, which sent its shares plummeting and *shuttered a business line*  
14 *that executives had, until recently, described as essential to its growth.*”

15 245. In a same-day report, titled “Bye Bye (i)Buy,” analyst Benchmark lowered its price  
16 target from \$200 to \$105 and wrote: “*In the famous words of Ron Burgundy, “boy, that escalated*  
17 *quickly.*” It further noted that “Zillow will probably be in the short-term penalty box and need to  
18 come up with a more concrete 2.0 game plan to *regain investor trust.*” BTIG downgraded Zillow  
19 and lowered its price target, reporting: “[W]e can’t justify a Buy rating on ZG without the iBuyer  
20 business. Our prior PT of \$145 incorporated \$55/share in value for the iBuyer piece with the rest  
21 at ~\$90/share. The stock closed today at \$87. What could change our mind would be signs of  
22 success with Zillow 2.0, but *in light of the missteps on the Offers business we aren’t inclined to*  
23 *underwrite success until we see traction.*” DA Davidson likewise wrote in a November 3, 2021  
24 report that: “[W]e find ourselves a bit disheartened to see ZG wind down Offers in such sudden  
25 fashion” and “*ZG’s path/ strategy for achieving [its] vision seems less clear now* without iBuying  
26 providing an important on-ramp for home-sellers to ZG’s broader product portfolio/ecosystem.”

27 246. Market commentators further highlighted that the sudden and “major strategic  
28 retreat” left them questioning Defendants’ execution and credibility. For example, The Wall Street

1 Journal reported: “*Zillow conceded failure in what amounts to one of the sharpest recent*  
2 *American corporate retreats.*” The New York Times reported that “[t]he announcement was a  
3 *major strategic retreat and a black eye for Richard Barton*, Zillow’s chief executive,” noting that  
4 “[l]ast year, Mr. Barton predicted Zillow Offers, which made instant offers on homes in a practice  
5 known as iBuying, could generate \$20 billion a year.” Wedbush described the disclosure as “*a*  
6 *tremendous setback*,” noting that “[i]t is *a hasty exit from a business in which Zillow*  
7 *significantly accelerated just this past August.*” It further reported: “The execution never ended  
8 up getting to where it needed to, and Zillow is now bailing.... The vision needs to be rebuilt and  
9 in light of how iBuying transpired, *management will need to rebuild credibility* that it can  
10 successfully implement that vision over time.”

11 247. Piper Sandler wrote that “*it’s a major strategic shift and raises questions about*  
12 *future direction and execution capability.*” It further noted: “We downgrade to Neutral because  
13 ex-Home we no longer see upside to shares. Also, management’s *abrupt strategic shift leaves us*  
14 *questioning the long-term strategy. Execution may be a problem.*” On November 5, 2021,  
15 Berenberg cut its price target from \$162 to \$82, explaining that “[m]anagement needs to regain  
16 *credibility. On ZG’s 8/5 Q221 call, management said the company was on track to meet its long-*  
17 *term iBuying goals of buying 5k a month and reaching \$20bn in revenue. However, that was no*  
18 *longer the case by 11/2’s Q321 earnings* as the company announced it was winding down  
19 operations.” Evercore wrote that “[m]anagement cited pricing accuracy, higher conversion rates  
20 causing capacity constraints, and balance sheet and cash flow risks as key reasons for the exit, but  
21 *we believe the exit calls into question execution*, given the remaining players in the market  
22 OPAD/OPEN that are still in operations.” It further noted that “the *surprising shift in strategy*  
23 causes us to acknowledge our limited visibility into the company’s outlook and to retrench our  
24 rating.” And Business insider reported, “Current and former employees at the company said those  
25 explanations [for why Zillow was shutting down Zillow Offers] *omitted Zillow’s role in the*  
26 *debacle.*”

27 248. In a scathing November 19, 2021 report, Piper Sandler wrote: “*Repairing Trust:*  
28 In our view, the math matters little until *management takes full ownership for mistakes. Press*

1 *reports call into account execution.... Management reiterated their long-term financial targets*  
 2 *as recently as August....*” It further noted that “the ZOffers wind down and resulting layoff of ¼  
 3 of the work force is a *major execution misstep and begs questions about the model going*  
 4 *forward.*” Piper Sandler also wrote that “[e]vents suggest a string of poor decision making by  
 5 management over a number of months” and “the evidence is accumulating of a considerable  
 6 execution misstep. More recent news of internal memos titled ‘Project Ketchup’ that encouraged  
 7 ZOffers homebuyers to accelerate purchases to ‘catch up’ with Open Door are particularly  
 8 worrying. Management should be accountable.”

9 249. On February 8, 2022, analyst Stephens reported: “Zillow’s decision to close the  
 10 doors on its Zillow Offers (iBuying) business was, perhaps, *the most shocking news that hit the*  
 11 *U.S. real estate vertical in 2021... it was the suddenness of the announcement that added to the*  
 12 *shock factor as Zillow was coming off a record rate of home purchases, and it was just a few*  
 13 *months removed from a quarter (2Q21) in which the Company really applauded the success it*  
 14 *was seeing in expanding ZO* (the 2Q21 shareholder letter highlighted Zillow’s improvements in  
 15 ‘pricing models and automation when providing offers to customers’). Clearly, faster is not always  
 16 better and *Zillow (and the stock) paid dearly for its, arguably, reckless approach to share gains.*”

#### 17 **VIII. INAPPLICABILITY OF THE STATUTORY SAFE HARBOR**

18 250. The statutory safe harbor or bespeaks caution doctrine applicable to forward-  
 19 looking statements under certain circumstances does not apply to any of the false and misleading  
 20 statements alleged herein.

21 251. None of the statements complained of herein was a forward-looking statement.  
 22 Rather, they were historical statements or statements of purportedly current facts and conditions  
 23 at the time the statements were made.

24 252. To the extent that any materially false or misleading statement alleged herein, or  
 25 any portion thereof, can be construed as forward-looking, such statement was a mixed statement  
 26 of present and/or historical facts and future intent, and is not entitled to safe harbor protection with  
 27 respect to the part of the statement that refers to the present and/or past.

1           253. To the extent that any of the materially false and misleading statements alleged  
2 herein can be construed as forward-looking, those statements were not accompanied by meaningful  
3 cautionary language identifying important facts that could cause actual results to differ materially  
4 from those in the statements. Given the then-existing facts contradicting Defendants' statements,  
5 as set forth above, any generalized risk disclosures made by Zillow were insufficient to insulate  
6 Defendants from liability for their materially false and misleading statements.

7           254. To the extent that the statutory safe harbor doctrine does apply to any forward-  
8 looking statements pleaded herein, Defendants are liable for those false and/or misleading forward-  
9 looking statements because, at the time each of those statements was made, Defendants did not  
10 actually believe the statements, had no reasonable basis for the statements, or were aware of  
11 undisclosed facts tending to seriously undermine the statements' accuracy.

#### 12                                   **IX. THE PRESUMPTION OF RELIANCE**

13           255. At all relevant times, the markets for Zillow Common Stock were efficient for the  
14 following reasons, among others:

- 15           a. That Zillow's Common Stock met the requirements for listing, and was  
16 listed and actively traded on the Nasdaq Stock Market, a highly efficient  
17 and automated market;
- 18           b. As a regulated issuer, Zillow filed periodic reports with the SEC and the  
19 Nasdaq Stock Market;
- 20           c. Zillow regularly communicated with public investors via established market  
21 communication mechanisms, including through regular dissemination of  
22 press releases on the national circuits of major newswire services and  
23 through other wide-ranging public disclosures, such as communications  
24 with the financial press and other similar reporting services; and
- 25           d. Zillow was followed by numerous securities analysts employed by major  
26 brokerage firms, who wrote reports that were distributed to those brokerage  
27 firms' sales force and certain customers. Each of these reports was publicly  
28 available and entered the public marketplace.



1 records maintained by Zillow or its transfer agent(s), and may be notified of this class action using  
2 a form of notice similar to that customarily used in securities class actions.

3 260. Questions of law and fact exist and are common to all Class members and  
4 predominate over questions solely affecting individual Class members. Among the questions of  
5 fact and law common to the Class are:

- 6 a. whether Defendants violated the Exchange Act;
- 7 b. whether Defendants omitted and/or misrepresented material facts in statements  
8 made to the investing public;
- 9 c. whether Defendants acted with the requisite scienter;
- 10 d. whether the prices of Zillow Common Stock were artificially inflated during the  
11 Class Period due to the misrepresentations and/or omissions alleged herein;
- 12 e. whether reliance may be presumed pursuant to the fraud-on-the-market doctrine  
13 and/or the *Affiliated Ute Citizens of the State of Utah v. United States*, 406 U.S.  
14 128 (1972) presumption; and
- 15 f. the appropriate measure of damages.

16 261. Plaintiff's claims are typical of those of the Class because Plaintiff and the Class  
17 were similarly affected by Defendants' wrongful conduct in violation of the federal securities laws  
18 as complained of herein.

19 262. Plaintiff will fairly and adequately protect the interests of the Class and has retained  
20 counsel who are experienced in class actions and securities litigation. Plaintiff has no interests that  
21 conflict with those of the Class.

22 263. A class action is superior to other available methods for the fair and efficient  
23 adjudication of this controversy. For instance, joinder of all Class members is impracticable and  
24 there will be no difficulty in the manageability of this action as a class action. In addition, the  
25 damage suffered by some individual Class members may be relatively small compared to the  
26 burden and expense of individual litigation, making it impossible for such members to individually  
27 redress the wrong done to them.

28

**XI. CLAIMS BROUGHT PURSUANT TO THE EXCHANGE ACT**

**COUNT I**

**FOR VIOLATIONS OF SECTION 10(b) OF THE EXCHANGE ACT AND  
SEC RULE 10b-5 PROMULGATED THEREUNDER  
(AGAINST ALL DEFENDANTS)**

264. Plaintiff repeats, realleges, and incorporates by reference the allegations in the preceding paragraphs as if fully set forth herein.

265. This Count is asserted on behalf of Plaintiff and all other Class members against each Defendant for violations of Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b) and SEC Rule 10b-5 promulgated thereunder, 17 C.F.R. § 240.10b-5.

266. During the Class Period, Defendants carried out a plan, scheme, and course of conduct that was intended to and, throughout the Class Period, did: (1) deceive the investing public, including Plaintiff and the Class; and (2) cause Plaintiff and the Class economic harm.

267. Defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 in that they: (1) employed devices, schemes, and artifices to defraud; (2) made untrue statements of material fact and/or omitted material facts necessary to make the statements not misleading; and (3) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Zillow's Common Stock during the Class Period.

268. Defendants, individually and in concert, directly and indirectly, by the use, means, or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about the Company's financial well-being, operations, and prospects.

269. During the Class Period, Defendants made the false and misleading statements specified above, which they knew, or recklessly disregarded, were materially misleading in that they contained misrepresentations and failed to disclose material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading.

270. Defendants acted with scienter throughout the Class Period, in that they had actual knowledge of the misrepresentations and omissions of materials facts set forth herein or recklessly disregarded the true facts that were available to them.





1 false and misleading statements and/or omissions of material fact in connection with the purchase  
2 or sale of Zillow's Common Stock and by participating in a fraudulent scheme and course of  
3 business throughout the Class Period. This fraudulent conduct was undertaken with scienter, and  
4 the Company is charged with the knowledge and scienter of each of the Executive Defendants who  
5 knew of or acted with deliberate reckless disregard of the falsity of the Company's and/or the other  
6 Executive Defendants' statements alleged herein to have been materially false and misleading  
7 when made and/or omitted material facts necessary to make the statements not misleading in light  
8 of the circumstances under which they were made, and the fraudulent nature of the Company's  
9 and the Executive Defendants' scheme during the Class Period.

10 278. During the Class Period, each of the Executive Defendants was a "controlling  
11 person" of Zillow within the meaning of Section 20(a) of the Exchange Act. By reason of their  
12 high-level positions of control and authority at Zillow and their participation in and/or awareness  
13 of the Company's operations and/or knowledge of the materially false and misleading statements  
14 and omissions of material fact in statements disseminated to the investing public, each of the  
15 Executive Defendants had the power and authority to influence and control, and did influence and  
16 control, directly or indirectly, the decision making of the Company and its executives, including  
17 the content and dissemination of the various statements Plaintiff contends were materially false  
18 and misleading. In that regard, the Executive Defendants were provided with or had unlimited  
19 access to copies of the Company's reports, press releases, public filings, and other statements  
20 alleged by Plaintiff to be misleading prior to and/or shortly after these statements were issued and  
21 had the ability to prevent the issuance of the statements or cause the statements to be corrected.

22 279. The Executive Defendants were culpable participants in Zillow's fraud alleged  
23 herein by acting knowingly and intentionally, or in such a deliberately reckless manner as to  
24 constitute willful fraud and deceit upon Plaintiff and the other members of the Class who purchased  
25 or otherwise acquired the Company's Common Stock during the Class Period.

26 280. By virtue of their positions as controlling persons, and as a result of their own  
27 aforementioned conduct, the Executive Defendants are also liable pursuant to Section 20(a) of the  
28 Exchange Act, jointly and severally with, and to the same extent as, the Company is liable under

1 Section 10(b) of the Exchange Act and Rule 10b-5 and are liable under Section 20(a) of the  
2 Exchange Act.

3 281. As a direct and proximate result of this wrongful conduct, Plaintiff and the Class  
4 suffered damages in connection with their purchases of Zillow Common Stock during the Class  
5 Period.

6 **PRAYER FOR RELIEF**

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

8 A. Determining that this action is a proper class action under Rule 23 of the Federal  
9 Rules of Civil Procedure, certifying Plaintiff as class representative, and designating Lead Counsel  
10 as Class Counsel;

11 B. Awarding Plaintiff and the Class all damages and other remedies available under  
12 the Exchange Act in an amount to be determined at trial, together with pre-judgment and post-  
13 judgment interest thereon;

14 C. Awarding Plaintiff and the Class their reasonable costs and expenses incurred in  
15 this action, including attorneys' fees, accountants' fees, and expert fees; and

16 D. Awarding such equitable, injunctive, or other further relief as the Court may deem  
17 just and proper.

18 **JURY DEMAND**

19 Plaintiff hereby demands a trial by jury.

20 DATED: May 11, 2022

HAGENS BERMAN SOBOL SHAPIRO LLP

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