Sept 23, 2012

Zillow (NASDAQ:Z): It's Not Just the Ridiculous Valuation– it's the Ridiculous Business Model

Introduction

Wall Street was back to its old tricks last week as they rushed out the Trulia IPO based on the recent stock market run-up of its main competitor Zillow. But as we know through history, success in the stock market does not necessarily mean the underlying business is investible. Citron now exposes the side of Zillow that you do not know, one not accurately reflected in its stock price. But it will inevitably be cut in half just like the previous online real estate companies whose valuation collapse Citron has accurately predicted over the years.

Citron thinks shareholders lulled into complacency by Zillow's recent stock chart, while failing to question its underlying business model, will face devastating consequences. While Citron has hesitated to spotlight a battleground stock such as Zillow, Trulia's frothy IPO reception further encourages the investing public to get swept up in the speculative frenzy, ignoring the looming array of red flags swarming around Zillow. The unvarnished truth is that the willowy story Zillow has been telling Wall Street is completely inconsistent with company's underlying business metrics. Meanwhile corporate and insider actions reveal a completely different agenda.

Citron truly hopes Trulia treats the public's capital with more respect than Zillow has. Will it restore some dignity to a stock market that has become nothing more than a vehicle to line the pockets of shareholders until the day of truth eventually comes? Time will tell.

But for Zillow, Citron believes the day of reckoning is sooner than you think.

Citron has been following Zillow for close to seven years now. We first mentioned Zillow to our readers in the context of our analysis of SOLD and MOVE, two long-lived companies with the fundamentally identical business model (yes, we are veterans in this space).

Ticker	Company	Price when reported	Date of report	Price/ Pctg loss	Outcome date	Current Price / Pctg loss
SOLD	Housevalues.com (now LEDR)	13.21	Nov 18, 2005	2.40 **-80%**	Mar, 2008	6.71 -49%
MOVE	Realtor.com	19	July 5, 2006	7.59 **-60%**	Jan, 2008	8.67 -54%

At the time Citron posted these stories, Zillow was a privately held startup with a cute little gimmick called the "Zestimate."

Fast forward six years, and this cute little gimmick has evolved into a $1.55 billion market cap, yet their underlying fundamentals look worse than they did even seven years ago. The evidence is in plain sight, where management shows its true conviction—through their massive insider sales.

Zillow is Not a Valuation Story, it's a Terminal Story

Zillow: Priced…"To Infinity…And Beyond!"

	Bloomberg data	
Recent Market Cap	1,477,000,000	billion
Trailing P/E (ttm)	296	
Forward P/E 2012	142	
Relative PE to SPX	17.75	times
Price/Sales (ttm)	16.49	
EPS (ttm)	0.11	
Current Revenue Run Rate	100,000,000	per yr

These are true nosebleed valuations. Normally, Citron would not write about a stock that is heavily shorted, with a bear case predicated on valuation. But that headline doesn't tell Zillow's story.

Citron does not write for the purpose of affecting reactive short term market movements.

- Zillow's story is not about valuation. Chipotle has great burritos, Lulu Lemon has great workout clothes and LinkedIn is a game changer in professional networking—all very expensive stocks. Those are valuation considerations.
- In contrast, Zillow is a dog for its users, a dog for its customers, and operates in a hotly competitive space without a sustainable advantage.
- Zillow serves a constrained revenue customer base—real estate agents—with very finite potential.

Ergo, it's not a valuation story. It has all the ingredients of a terminal business story.

A picture is worth 1000 words. There is a lot of data in this story presented in chart form whose source is the two most recent Citigroup reports on Zillow. We want it noted that we respect Citi for publishing truthful survey results, regardless of having underwritten Zillow's IPO, even though these charts do not portray the client company in the most favorable light. We have also included some charts from Craig-Hallum, who maintains comprehensive coverage on Realtor.com (MOVE).

Citron acknowledges that Zillow is a high short interest stock, that being for a reason. This purpose of this article is not to cause a sudden drop in stock price. Rather we just want to be on the same side of the counter as management, the people who know best—we are net sellers of the stock. In time, sooner than later, the stock will unwind and will head down toward a realistic multiple. **We think that level is in the teens and ultimately the single digits**.

What Do Insiders Know That You Don't Know?

Since IPO, Zillow's insiders have reaped a vast reward from insider share sales, a bounty which dwarfs the business's results from operations. Normally we would not start with this point, except for the astonishingly misleading actions of management with regard to its recent shelf registration. Just six weeks ago, on August 7, 2012, during the quarterly earnings conference call, management referred to this registration as **"good housekeeping"** (twice) and said they had **no plans of accessing the shelf registration anytime soon**.

Chadd M. Cohen CFO:

"On August 1, we became S-3 eligible and today filed the shelf with the SEC as a matter **of "good housekeeping"** and to provide ourselves with flexibility on our capital structure in order to remain prepared for future considerations of both our operational needs and potential strategic opportunities in the marketplace."

Spencer M. Rascoff CEO:

" So basically…a year after being public, as a matter **of "good housekeeping",** we filed the shelf, which is pretty much customary for companies at this stage… So, just to be clear for those on the call who maybe don't know that there's been a shelf and a follow-on, what we filed today is not a follow-on offering… It's a shelf statement with the SEC, which says, basically it registers shares… **So if we decide to do a follow-on later,** then the shares can be sold more rapidly; basically we can complete a follow-on more expeditiously… you're supposed to file what you think is reasonable to sell over a two year period potentially, and so that explains why we chose $150 million… Again, it's a pretty customary thing for a company on the one year anniversary post IPO to do this just so you can do a follow-on, if you choose, and we have not decided whether or not to do a follow-on, if you choose, more expeditiously, and **we have not decided whether or not to do a follow-on."**

So, this matter of two "good housekeepings" and seven "follow-on's" about not filing to sell any shares was "followed-on" by a run to the Wall Street ATM while the ink was still wet, **the minute it became effective,** just 30 days later. It took just 48 hours for the company to pull the trigger, selling the shelf to the public, and including an additional $22 million cash-out for management. It is Citron's opinion that this corporate action is completely unscrupulous. The stock was artificially propped up for 30 days with promise of no dilution or insider selling, and as soon as the window was open—BOOM! Why doesn't this kind of sleight-of-hand qualify for a market manipulation charge?

Let us put the insider selling in perspective:

The handful of officers and directors (15 to be exact) plus one small transaction from one fund have generated sales of in excess of **$108 million** from **2.92 million shares** at an average price of over 37.00.

Zillow's act of "good housekeeping" earlier this month raised yet another $125 million from the public—that's more than their entire **gross revenues** (trailing 12 months) since their IPO.

Occupy Wall Street Anyone?

But when we consider net revenue, the discussion becomes really shameful. Zillow has been operating since 2006, but has just reported its first two profitable quarters in March and June 2012. So if we ignore all the prior years' losses and focus on the positive, it would take **18 years of the current net revenue run rate to earn enough to match the amount of insider sales to date**—and that is if the insiders never sold another share. (Don't count on that.)

Considering only the 525,000 insider shares sold just last week at $43, it would take 3 ¼ years of the current net revenue run rate to generate that much money.

Zillow: A Business Whose Best Days are Behind it

This torrent of insider selling has to be for a reason. The reason is the limitation of the current business model and the uncertainty of the future. In a recent New York Times article, CEO Spencer Rascoff admits to these limitations as he stated:

> "You can't just sell advertising without being exposed to someone else undercutting you on price…"
>
> *—-Zillow CEO Spencer Rascoff*

Citron agrees. Investors really need to examine why they are paying such a nosebleed-high valuation for decelerating growth, especially in the face of the huge insider sales.

Business Model: a Finite Audience, and a History of Failure

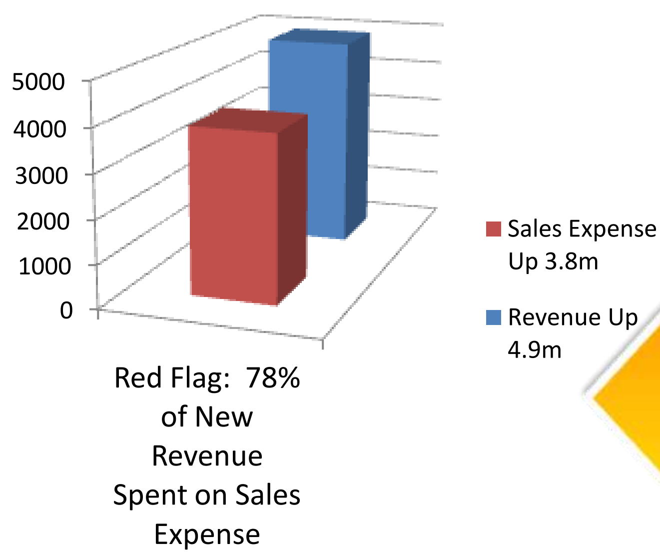
It is Citron's primary thesis that Zillow is a Web 1.0 business presenting itself as a Web 2.0 investment. The entire premise of Web 2.0 is that smart managing and publication of information interactively to users can scale tremendously, while costs remain fixed. But unlike Netflix, LinkedIn, and even Facebook, Zillow isn't voyaging forth into an ever-expanding horizon of unlimited sized markets opening up on the internet. It generates virtually all of its revenue from U.S. real estate agents. And it does so the old-fashioned way—by cold-calling them on the telephone. It's been operating since 2006 more or less as it does today, and was consistently unprofitable, until the last two quarters.

As proof, Citron presents Zillow's last two quarterly gross revenues, compared to its Sales and Marketing expense. **It is a "heavyweight" sales company masquerading as a "web 2.0" leveraged technology play.** The only way it has to grow revenues right now is with the increasing intensity of the sales effort. It's not light and leverageable like LinkedIn, or OpenTable (Sales and mktg 21.4% of revenues)   In reality, Zillow is more similar to Groupon than a Web 2.0 company such as LinkedIn or Open Table.

	Q2 2012	FY 2011
Revenue	27,765	66,053
Sales Mktg Exp	12,153	25,725
	43.77%	**38.95%**
G&A	5,232	14,613
	18.84%	22.12%

Very unhealthy and getting worse.

2nd Quarter Revenues and Sales Expense Deltas



Pays for nearly all last quarter's sales growth by direct telesales expense spending.

Expressed another way, it is apparent to Citron that Zillow is buying revenues with an intense telesales effort. Put in its simplest terms, they **spent an additional $3.8 million on sales expense** last quarter, and **only generated $4.8 million** in new revenues!

By comparison, Open Table spends **21%** of revenues on sales, and even LinkedIn spends **33%.** This comparison shows how much Zillow is dependent on **old school phone room sales**—not Web 2.0 online leverage.

While management might spin a fun story about their company growing revenues at a rapid pace, the proof is in the numbers. The cost of sales demonstrates that customers **do not buy** Zillow ads; **they are**

sold Zillow ads, which should be disturbing because they address a target niche market unlike OPEN or LNKD—and cost of sales should be lower.

Open Table	Q2 2012	Q1 2012		**LinkedIn**	Q2 2012	Q1 2012
Revenue	39,558,000	39,369,000			228,207	188,456
Sales Mktg Exp	8,438,000	8905000			75,740	65,884
	21.33%	**22.62%**			**33.19%**	**34.96%**

It is absolutely essential that all investors understand this core description of Zillow's business model.

Zillow doesn't sell <u>anything</u> to homebuyers or casual internet surfers. . .(except some low-value mortgage loan leads/referrals.)

This is an indisputable fact.

Citron notes that MOVE.com, formerly Homestore.com, referenced above, could not make money during the real estate boom of the mid 2000's. At the time, they were the **only** online destination for brokers to buy leads. (Citron wrote about MOVE when its market cap was over two billion "with a B"; today it is 350 million "with an M").

How does anyone expect Zillow to thrive in that **identical** business, with competition from Realtor.com, Trulia, and a host of smaller competitors, all fighting for wedges of the same finite customer base? The inescapable market reality is that the business model of selling leads to real estate brokers just does not scale…read on.

Valuation Comparison Zillow (Z) and Realtor.com (MOVE)

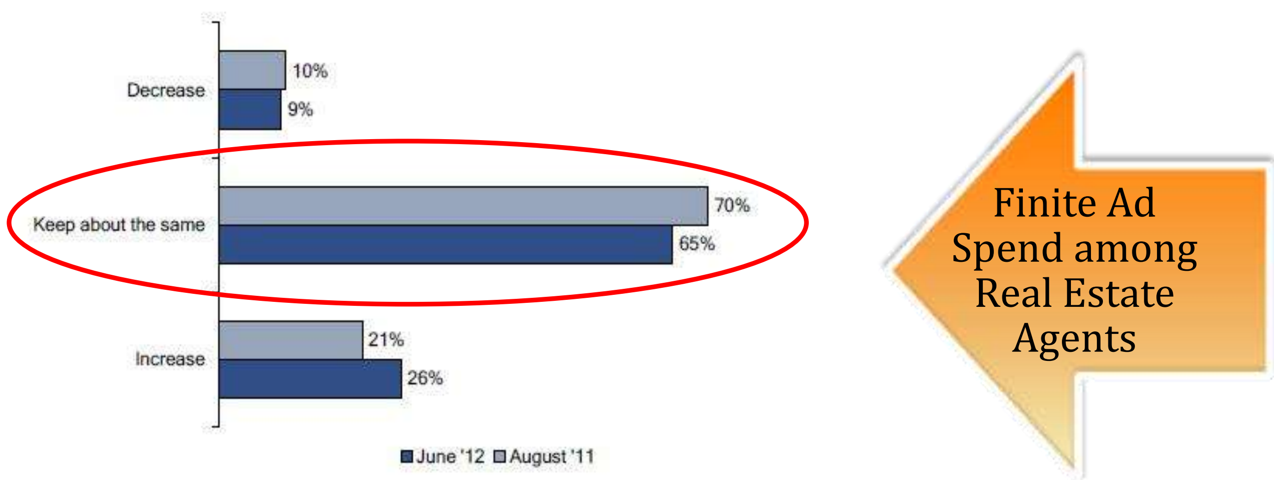
	Zillow		**MOVE**		**Zillow has…**
	Q2/ 2012	FY 2011	Q2/ 2012	FY 2011	
Revenues	50.4	66.1	97.1	191.7	Half the revenues
Development Spend	10.8	14.1	18.1	34.7	Half the development spend
Trailing PE	539.05		72.25		6 times the P/E
Forward PE	63.77		19.70		3 times the forward P/E
Price/Sales Trailing 12 months	14.82		1.79		8 times the Price/Sales !?!?

The Metrics of a Constrained Market, and a Finite Customer Spend

Every active real estate agent in an active market area gets calls from Zillow's sales force weekly or monthly. Citron asks if there is a single professional real estate agent in the U.S. who doesn't know what Zillow is or does?

The following charts, from Zillow's own underwriter Citibank, in a recent analyst report that surveyed real estate agents, who are Zillow's core customer base, are pivotally important to understanding Zillow's prospects. If you own the stock, we recommend you read this sitting down.

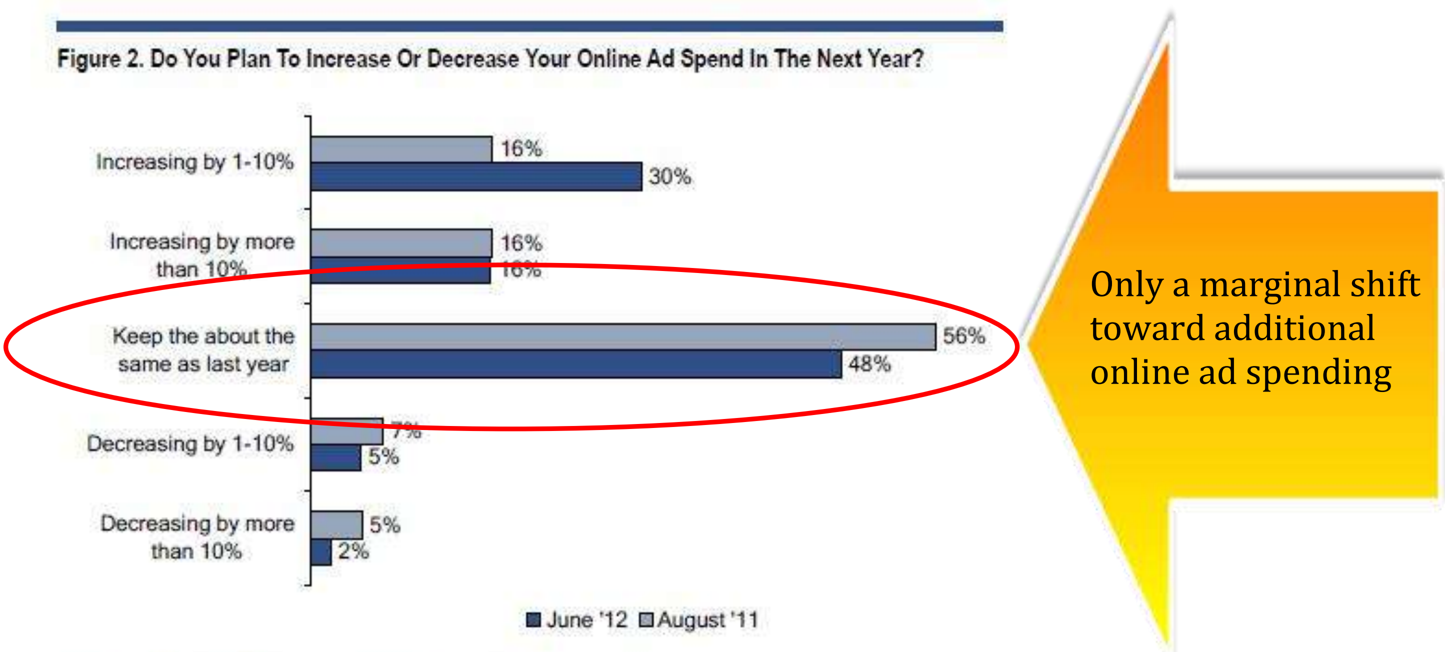
Figure 1. Do You Plan To Increase Or Decrease Your Overall Ad Spend In The Next Year?



Source: Citi Investment Research and Analysis (n=111)

Is this the chart of a defined customer base that should be awarded a forward P/E multiple of 142?

Figure 2. Do You Plan To Increase Or Decrease Your Online Ad Spend In The Next Year?



Source: Citi Investment Research and Analysis (n=111)

Real estate marketplace changes: Zillow is in the process of changing the business model for its "Platinum Premier Agent" advertisers, from a model in which they share in all the lead-generating ads displayed next to listings in a particular ZIP code, to contracts that provide agents with a fixed number of ad impressions per month. No matter how these deck chairs are re-arranged, the company is still operating a terminal business.

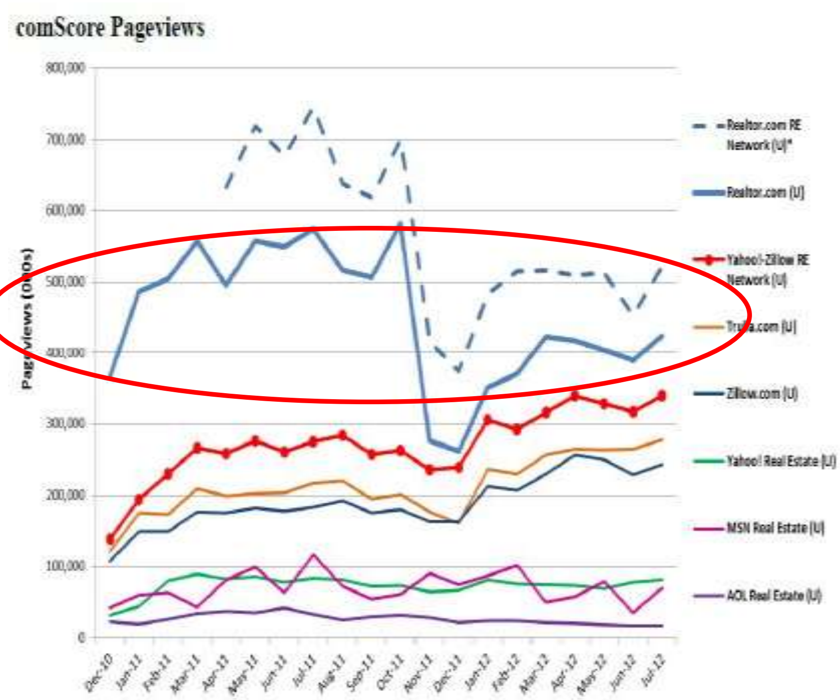
A Company Already in Decline: Visitor Growth Flagging

Now that there are **<u>three</u>** public companies syndicating the same MLS listings, Zillow's growth metrics are worth examining. The harsh reality is that the statistics reveal a company that is actually already in decline.

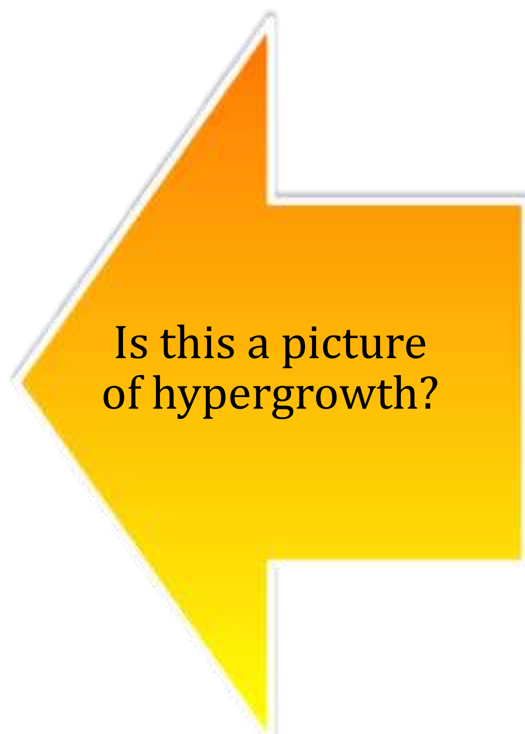
Visitor Growth Flagging

Yet as the stock continues to climb and the multiple increases, the contrast to the underlying business, which is in declining growth, becomes even more clear.

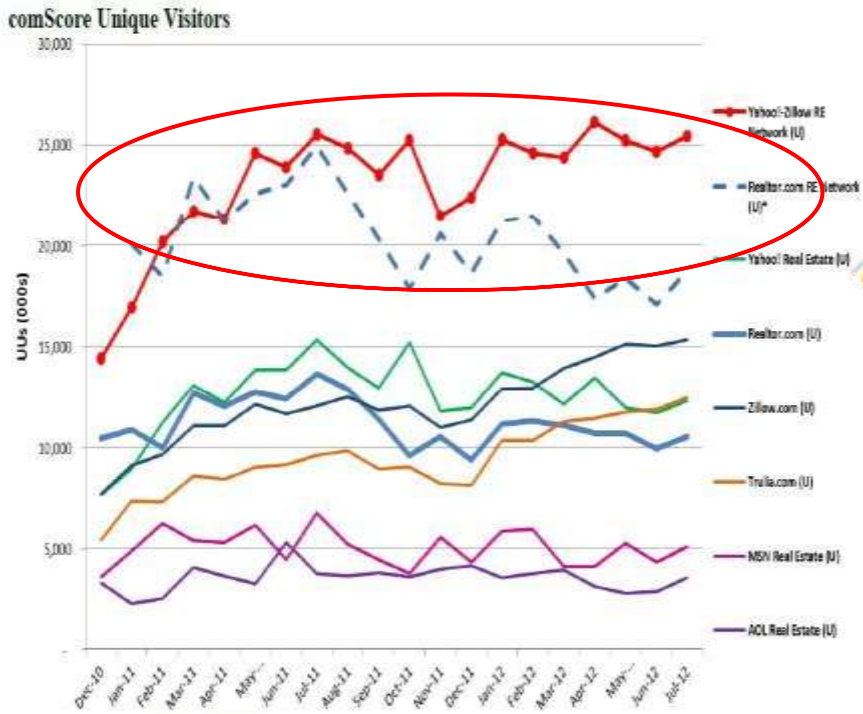
First, there is a sharp deceleration in the growth rate of monthly unique visitors to Zillow.com.



Source: comScore July 2012, Move, Inc.



Pageviews looks flat to lower over the last 18 months.



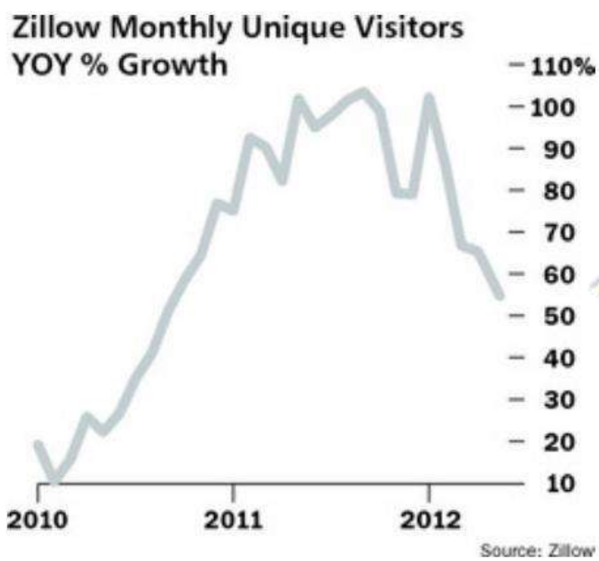
Source: comScore July 2012, Move, Inc.

Yahoo/Zillow hasn't moved the needle since April 2011, regardless of all that IPO money.

Meanwhile, despite the high unique visitor count, the Yahoo partnership generates only between $5 and $10 million per year to Yahoo. http://www.ratetake.com/news/2012-04-04-8.html .

That is far, far short of game changer revenue for a 1.5 billion dollar company.

Premiere agent subscriber rate of growth—which the company points to in its SEC filings as a key driver, along with unique user measures—has dropped to 74% in the first quarter from 212% in the first quarter of 2011.



The year-over-year increase of monthly unique-user visitors has been trending lower…

Given this, investors might ask why they are paying such a high valuation for decelerating growth.

Inelastic Real Estate Agent Market!

Third party lead syndication to Real Estate Agents is a dead-end business—always has been, and always will be.

And to prove the current model is not working—the company is now focused on shifting that model from becoming a marketing channel to a software platform for agents, and to other businesses such as rentals, that have little to no synergy with their current business.

Zillow: What is Going to Make the Future Brighter?

It's Tough To Run a Business When Your Customers Don't Like You

OK…let's forget for a second the countless "Zillow Sucks" websites and videos posted online and go to some data. Zillow estimates there are one million active commission-earning realtors in the U.S. As of Q2 2012, Zillow had 22,696 real estate agents subscribing to its Premier Agent advertising program. This translates into a 2.3% penetration of U.S. real estate agents. Zillow claims there is a vast uncharted market of 97.7% more agents to sign up...but is that realistic?

Ask yourself this question: "How many real estate professionals have **not yet** heard of Zillow?" Citron would suggest that number is close to zero. (Remember it's been operating this model **since 2006**…) Therefore, we can conclude that only 2.3% of their potential and targeted customer base has "been sold" on their services.

So every new customer they hope to get is someone who has been called countless times already, and who finally gives in on the proposition.

Why Their Customers Don't Like Them

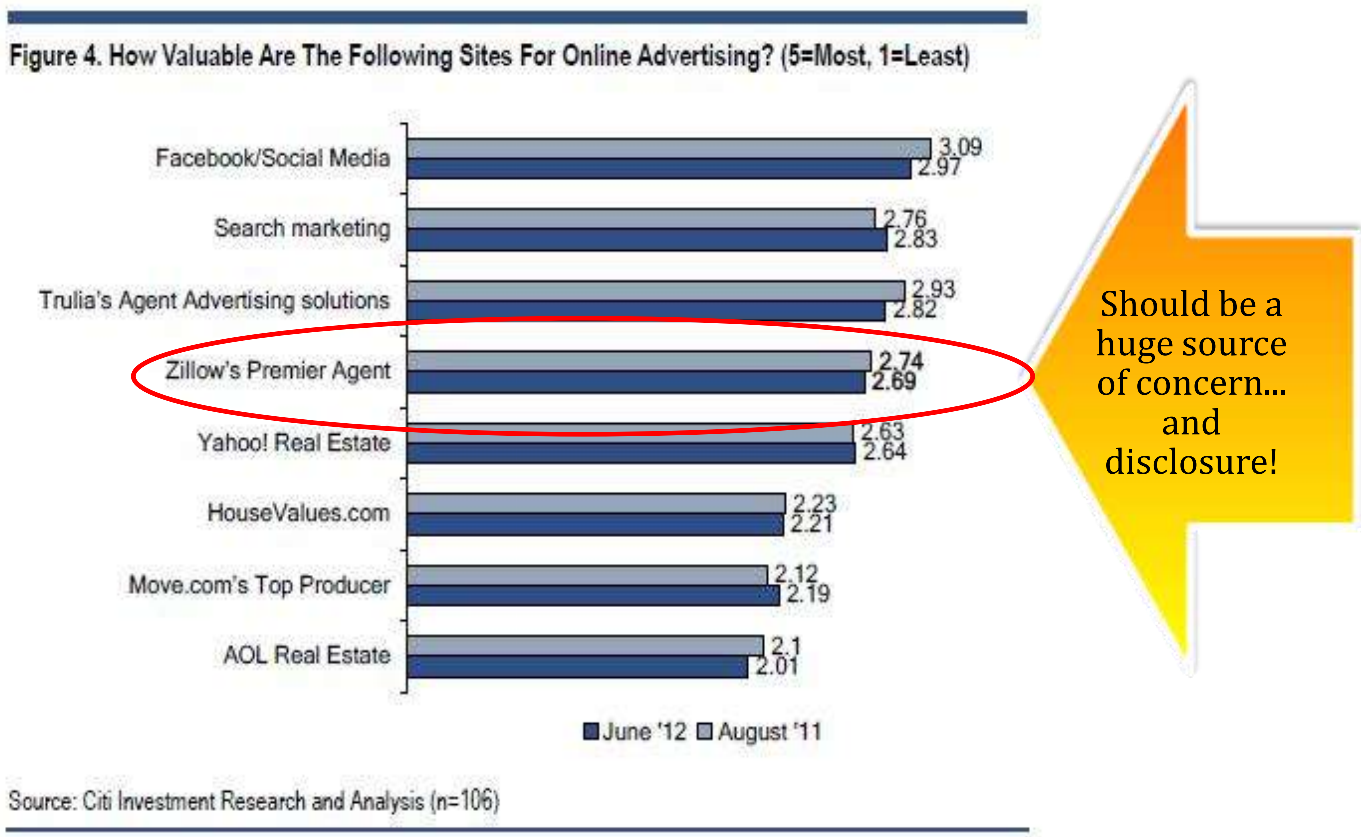
Zillow takes the intellectual property of individual realtors (syndicated residential real estate listings), mixes it together with some other content, and displays it for users. Realtors typically perceive that Zillow is re-branding their listings as its own, and then promptly tries to sell " the lead" (generated by advertising the listing agent) right back to the realtor who generated the listing in the first place. This has been the cause of much of the backlash. To make matters worse, visitors to the site are not always matched with a qualified broker, as Zillow will present a "Real Estate Professional" that might not specialize in that area…just because they paid for the lead.

As recently as last month, the President of Pacific Union Realty publicly declared to CEO Spencer Raskoff at a real estate technology roundtable discussion in San Francisco:

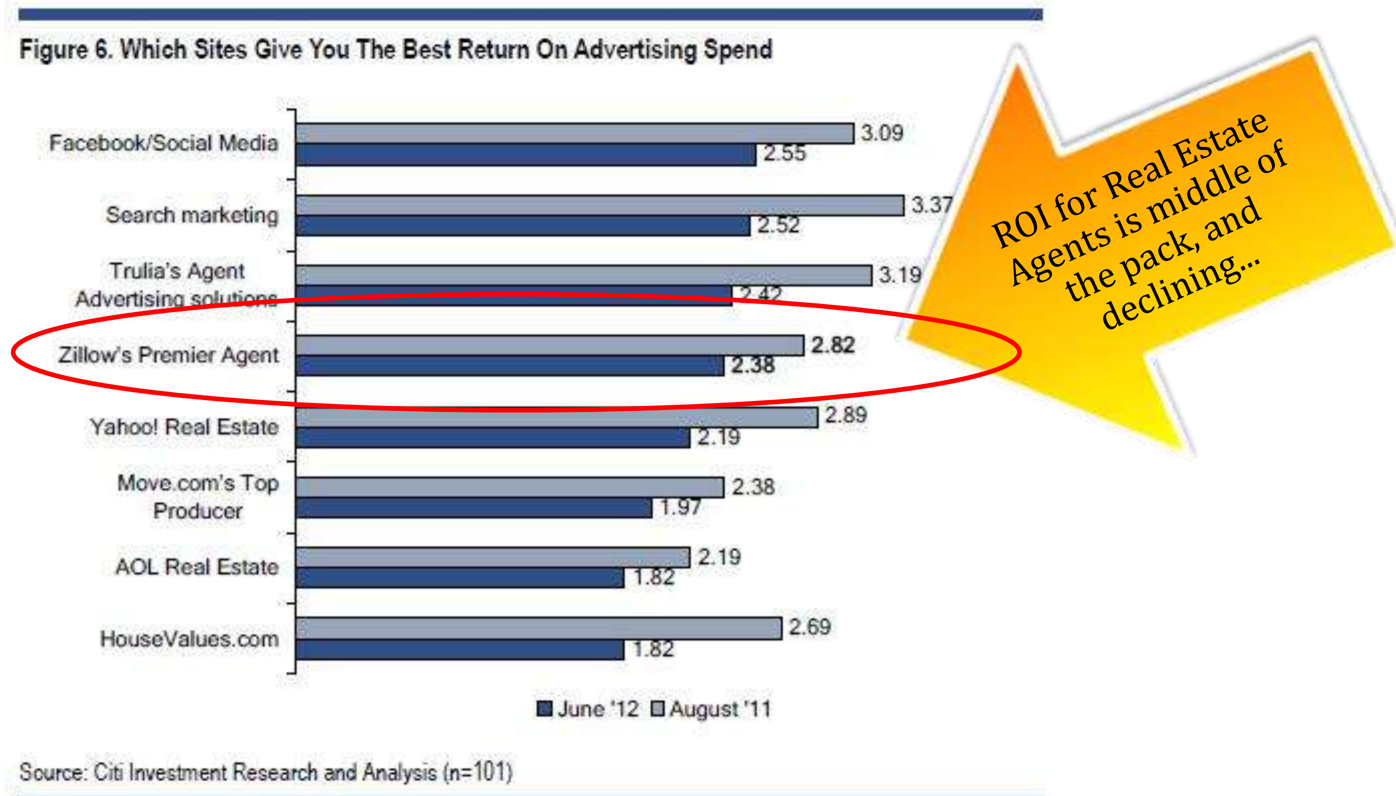
> " Don't use real estate professionals to be the economic engine of your company", he said to Rascoff and Samuelson.
>
> *—CEO Pacific Union Realty*
> *http://www.inman.com/inmaninf/storyxml/news/198027*

If they can't make more money—exponentially more money—from real estate agents than their current $100 million revenue stream, then who are they going to make it from?

Here are more survey statistics that measure overall sentiment of brokers toward Zillow:

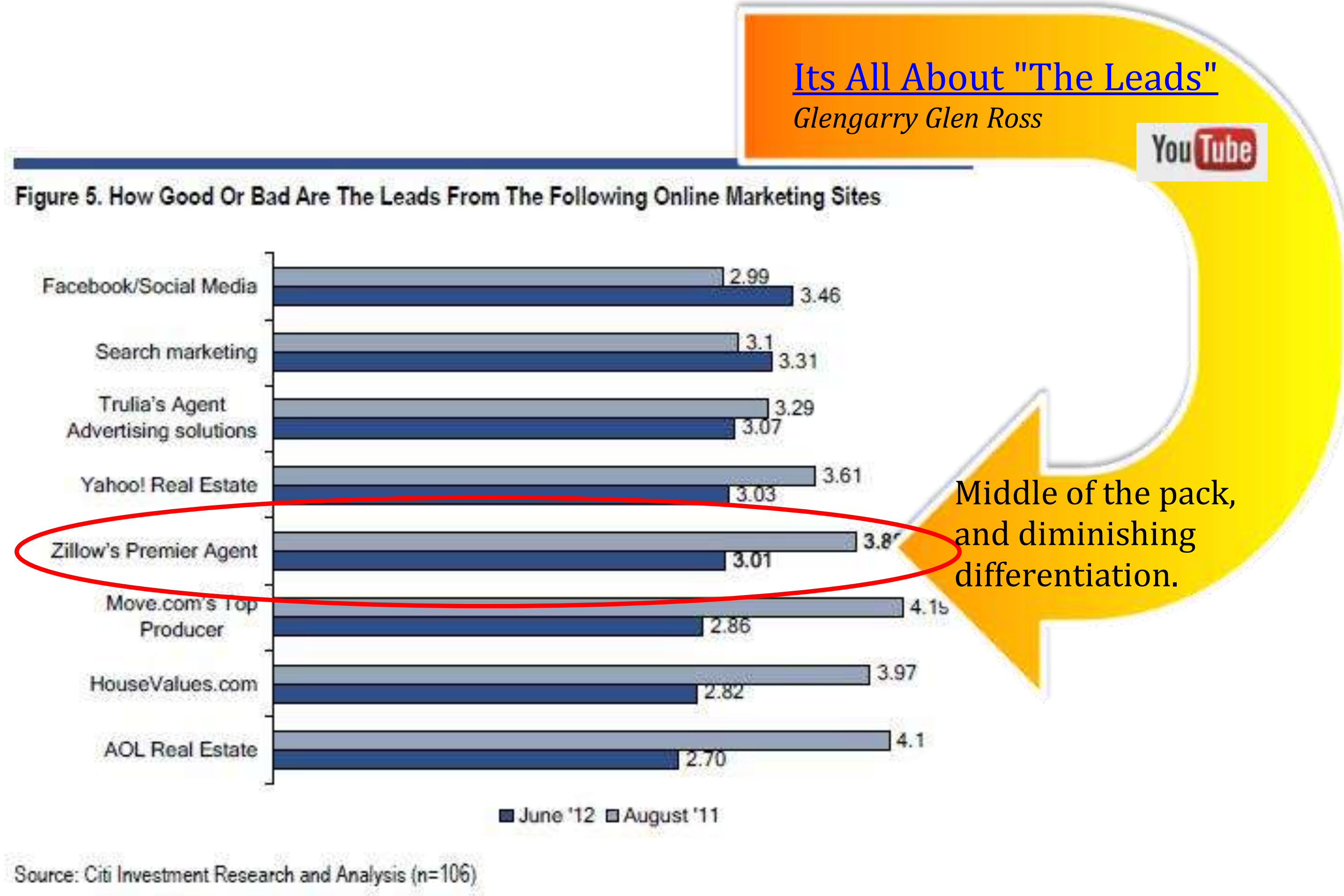


Zillow consistently polls less value to real estate agents than social media or search marketing.



This one is really a red flag. Note the declining ROI trends for all online ad channels.

Ronald Josey of ThinkEquity noted that while Zillow's customer base continues to grow, average revenue per user was down during the second quarter.



If you want to know about Zillow's "customer satisfaction," the above chart tells it all. Again our gratitude to Citi for publishing the truth.

The Trouble with Zestimates

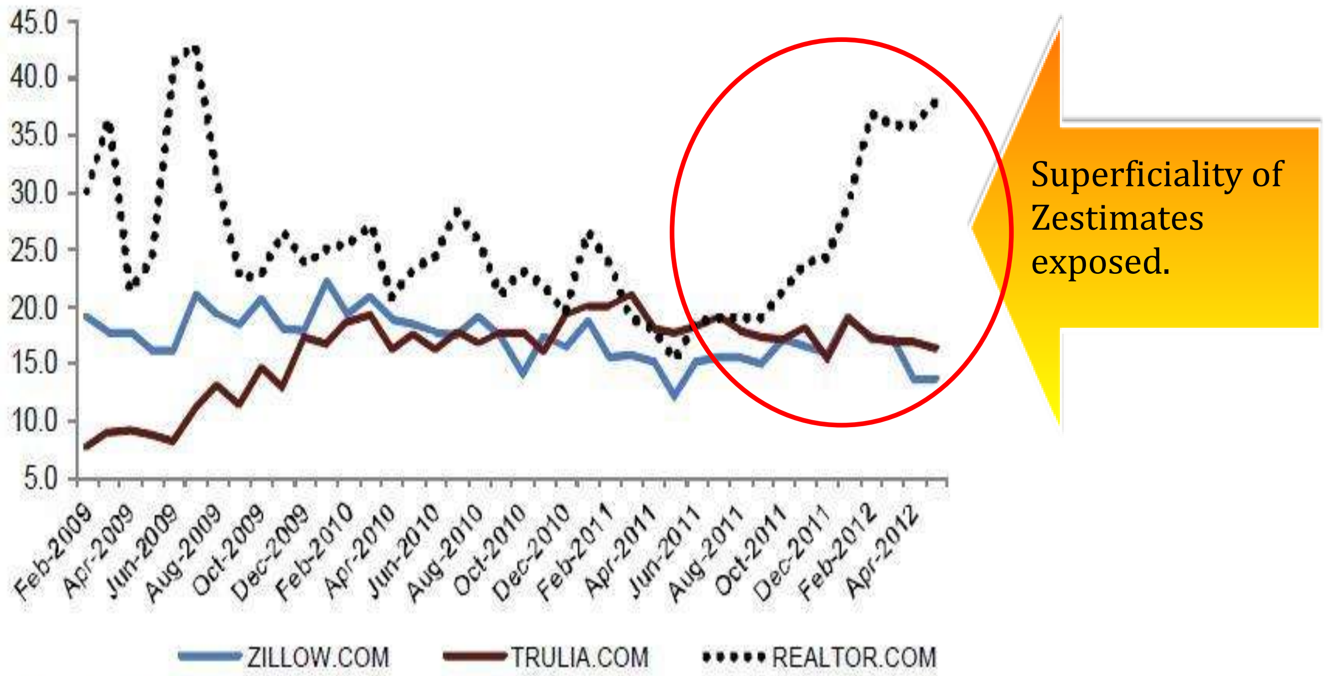
As we all know, Zillow built their brand on the Zestimate. You live by the sword, you die by the sword.

The Zestimate was a cute gimmick when it was first introduced—an easy way for a homeowner to satisfy idle curiosity about the current value of their home. (In recent years, it has become an object of morbid curiosity for homeowners to track how far their houses are underwater…) It's generated a noteworthy amount of web traffic to Zillow.com.

But now it has become a tool that alienates its customers. Listing agents spend too much time explaining to their prospects and clients why Zillow's Zestimate is wrong, and buyers agents are obligated to do the same. Can you imagine if a stockbroker's client was getting wrong stock prices from a website—by 20%, 30% or more? To make matters worse, the company says that now 35 million people have changed their Zestimate. What is worse? A Zestimate, or a homeowner telling you what their house is worth? **Both outcomes alienate the real estate agent—their primary customer.**

And after those 35 million "corrections" the current state of Zestimates is not measurably better than it ever was.

Exhibit 1: Average Minutes per Visitor on Real Estate Desktop Sites



Source: comScore Inc., Oppenheimer & Co. Inc.

This is the portrait of a website that depends on a "gimmick" to attract casual retail users, rather than one that meets the real needs of real home buyers and sellers. Most importantly, **it plants a big obstacle that impedes the professional real estate agents who are Zillow's real, and only paying customers.**

So either way, wrong Zestimates impede the real estate sales process. Ask any agent about this.

So how good are Zestimates? Lets have a look at a zip code right near Zillow's headquarters: http://www.zillow.com/homes/98101_rb/

Notice how all the Zestimates for "featured listings," the ones the agents pay up to get them listed first, are all **way too low**. A quick scan of the top 10 shows eight Zestimates at least 20% below the listing price. Suddenly an innocuous traffic-building gadget becomes a huge problem for Zillow's only paying customer —the real estate broker.

OK, let's try Beverly Hills' well-known zip code "90210." http://www.zillow.com/homes/90210_rb/
On the whole front page of 24 "featured" houses for sale, the Zestimate was only higher than the sale price once, and in most cases it is at least 30% lower than the offering price of the house. How does that make the realtor feel about Zillow? Their biggest chore with a potential buyer or seller is re-educating the client to overcome the inevitably misleading information conveyed by a Zestimate.

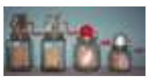
Need we state the obvious: look at the featured listings which display Zestimates vastly lower than the sales price. Who would want to buy a featured listing? This is worse than calorie counts displayed on the menu at KFC.

Alienating your customer is not a winning business strategy

Advice to Trulia about Zillow's Zestimates: let them have it. They are so enamored with their gadget they forget what it does to their customer. Note: The customer is **not** the casual website surfer, the only customer is the **real estate agent**.

Yesterday on Cramer's Mad Money, CEO Spencer Raskoff defended Zestimates by pointing out that "35 million homeowners have submitted 'corrections' to Zestimates." So what is worse: a Zestimate, or an owner-modified Zestimate? Both are terrible for business, in our opinion.

If the current state of Zestimates reflects all these "corrections," the prognosis for Zestimates ever becoming anything other than an impediment to the home-selling process is very poor.



Zillow's Dirty Big Secret

Zillow could take a lesson from these tools. They're all transparent—why isn't Zillow?

With all of the controversy about Zillow one has to ask the obvious: what is the churn rate of their subscribers? THEY WONT TELL YOU. Why, oh why?

Zillow, is enjoying the huge multiple Wall Street currently gives it, lining the pockets of insiders, but it will not disclose **the single key metric** that affords transparency with which to judge the forward-looking health of any subscription model: **Churn.**

The most telling metric in any subscription-based business is the churn rate. Stock market darling LinkedIn discloses it, as well as Netflix and Pandora. In the spring of 2011 when Netflix was trading over $250 a share, they informed the SEC that they wanted to stop disclosing churn, a sign of things to come.

The SEC responded to them thusly:

> "We note your response to prior comment one and your disclosure that you plan to cease providing gross subscriber additions, subscriber acquisition costs and **churn**. We continue to believe that disclosure of rates of churn would **be useful to investors** since disclosure of the total number of subscribers who discontinued the service can high light important operating trends and therefore request reconsideration of discontinuing this metric. Please advise."
>
> *—- SEC Correspondence to Netflix, 7/11/2011*
> *(Bold and underlining by Citron)*

(It should be noted that soon after Netflix asked for this exemption their stock plummeted 70%.)

Yet, not a single cheerleading analyst has even questioned Zillow's churn, much less demanded it, on a conference call in the last year. After reading every conference call and every piece of data on Zillow without finding an answer, Citron decided to do something we rarely do…we emailed the company the question…and when asking for retention rates, this is what we received:

> ***From:*** *RJ Jones <rjj@zillow.com>*
> *Subject: Re: a few questions*
> ***Date:*** *September 10, 2012 11:41:28 AM PD*
>
> *Andrew,*
> *We do not disclose retention or churn numbers. . Thank you for your interest.*
> *Thank you,*
>
> *RJ Jones*

Citron followed up with an email asking what numbers we should look at to best be able to back our way into a retention number. To that inquiry, we are still waiting for our response.

You would think that a company that has a **single channel customer**, unlike Netflix or LinkedIn, would be more than happy to boast about their retention. In all fairness, MOVE does not disclose the churn either, which in our opinion is more of a reflection on the whole business model rather than one company specifically. But the more narrow and addressable your audience is, the more this metric, which reflects your effectiveness in keeping that audience, is a "must know" reference point. By comparison, on their last conference call, LinkedIn mentioned the word "churn" nine times:
http://seekingalpha.com/article/777151-LinkedIn-s-ceo-discusses-q2-2012-results-earnings-call-transcript?part=single

We expect Zillow to respond by saying "our churn is low" or "our customers love us." Please give us a number and let the investors determine for themselves. When insider selling trumps revenues and profits you are not afforded the luxury of half-answers.

RentJuice Acquisition: Money for Nothing

As Zillow searches for alternative revenue streams to selling commoditized and inefficient leads to realtors, with, no doubt, some judgment warped by the river of money generated for them by Wall Street, they decided to acquire RentJuice.com, which is a software platform for landlords. Zillow paid $40 million for this acquisition.

When Citron first read RentJuice's accounting disclosure, we thought there must have been a mistake. RentJuice has $2.7 mil in assets and $750K in liabilities and this is what their most recent income statement looked like: (the most significant feature of these financials is they're presented **without** trailing 000's removed!)

	Three Months Ended March 31, 2012	2011
Revenue	$139,447	$79,588
Costs and expenses:		
Cost of revenue	69,140	44,420
Sales and marketing	380,448	168,205
Technology and development	338,013	130,374
General and administrative	223,325	130,739
Total costs and expenses	1,010,926	473,738
Loss from operations	(871,479)	(394,150)
Other income (expense)	(25,581)	(51,396)
Interest expense	—	(4,616)
Net loss	$(897,060)	$(450,162)

It appears as if RentJuice was less than three quarters away from running out of cash, running a business with declining efficiency. Yet Zillow gave up almost 50% of its net cash for the acquisition. Yes, $40 million in cash. To Citron, this shows a company that is mismanaged and is desperately trying to change its story—regardless of the underlying financials or fundamentals.

Fallacy of the Bull Case: Citron's Conclusion

Much of the bull case surrounds the fallacious theory that the historical ad spend primarily in newspapers (six billion) is in the process of shifting online, and Zillow will be there to capture it. This is flat wrong.

We can all agree the internet is not a new technology. Internet-generated leads to realtors have been getting sold for close to 15 years. Zillow itself has been around for seven years. If, after seven years and hundreds of millions of dollars of Wall Street's money, all it has generated is a $100 million revenue run rate, why should the future be exponentially better than the past—especially with a plethora of well-capitalized competition? That Zillow has captured a whopping 1% of real estate ad spend after seven years, definitively reveals a history of rejection of their model by their core market. This is not a broken business model; **it is a business model that has never worked.**

Zillow has a 100 million dollar cumulative deficit, while insiders have sold more stock since its IPO than the company has generated in revenues since that date.

While management unloads stock by the millions, they continue to deceive investors about their true business. Let us not forget what Zillow is: an aggregator website of syndicated MLS listings that sells leads to real estate agents. It is not doing anything either disruptive or new, and certainly not better than the others.

It is Citron's opinion that Zillow's revenue growth will slow once the number of leads per dollar of investment is the same as MOVE and Trulia. We suspect we are there right now, and the rate of insider sales is telegraphing that loud and clear.

We think the shift to mobile simply reallocates existing ad spend resources, and doesn't change anything fundamental on the competitive landscape. If Zillow has something truly disruptive to bring to the real estate shopping business, it hasn't demonstrated it to anyone yet.

Zillow is headed towards the severe multiple compression that you might call "a definitive Web 1.0 phenomenon"…that falling-out-of-bed feeling that was exactly the same fate that hit MOVE and SOLD investors in the middle of the last decade.

For all of the above reasons, we look for teens in the next year, and single digits eventually for this company.

Cautious Investing to All.