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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Q4 2019 Overstock.com, Inc. Earnings Conference call. (Operator Instructions)

Please be advised that today's conference is being recorded.

(Operator Instructions)

I would now like to hand the conference over to your speaker today, Alexis Callahan, Director of Investor Relations. Thank you. Please go ahead.

Alexis Callahan *Director of Investor Relations*

Thank you, Gigi. Good morning, and welcome to our fourth quarter 2019 earnings conference call. Joining me today are Jonathan Johnson, CEO of Overstock and President of Medici Ventures; Dave Nielsen, President of Overstock Retail; and Saum Noursalehi, CEO of tZERO.

Let me remind you that the following discussion and our responses to your questions reflect management's views as of today, March 13, 2020, and may include forward-looking statements. Actual results may differ materially. Additional information about factors that could potentially impact our financial results is included in the press release and Form 10-K filed this morning. Please review the forward-looking statements disclosure on Slide 2 of today's presentation.

During this call, we'll discuss certain non-GAAP financial measures. The slides accompanying this webcast and our filings with the SEC, each posted on our Investor Relations website, contain additional disclosures regarding these non-GAAP measures, including reconciliations of these measures to the most comparable GAAP measures.

Jonathan, with that, I would turn the call over to you.

Jonathan E. Johnson *CEO of Overstock and President of Medici Ventures*

Thank you, Alexis. Welcome, and good morning. We appreciate your interest in Overstock. I am excited to talk again with our shareholders, and I'll start by reviewing the agenda. I'll give a few remarks and updates on topics, I believe, are top of mind for our shareholders. We'll then discuss the Overstock Retail business, progress made by tZERO, updates on other Medici Ventures companies and then take questions.

Next slide. The last 2 quarters were all about establishing stability and focus. We've honestly assessed where we provide real value, where we need to improve and upgrade and where we can best leverage our strengths within the market.

We have identified areas in which we excel and have real opportunity, places where we should focus our efforts and double down on our strengths. For example, and Dave will discuss some of these in more detail, Overstock Retail is improving our mobile website conversion rate and shopping experience, better measuring our discounting and pricing and maximizing the value of our website.



We have also actively chosen to end certain projects and businesses that did not fit these criteria, removing distraction and allowing us to remain focused. For example, Overstock Retail turned off the cars, pet adoptions and real estate portions of the website, and tZERO has stopped working on the DLR project.

We remain committed to returning Overstock Retail to sustainable, profitable growth and growing the blockchain businesses to their potential. This focus, this stability will get us there.

In the fourth quarter, we established the right initiatives and set focused objectives with measurable key result targets against which we can track our progress and hold ourselves accountable in 2020. Throughout the organization, we are committed to a disciplined focus. I'm confident in our direction and in the team's ability to execute.

Next slide. Let me update you on our digital dividend. As you know, we received shareholder approval on February 13, to move forward as planned with the issuance of our dividend. As I mentioned during our special shareholder meeting, we are committed to making this a smooth shareholder experience.

Trailblazing can be rocky, so we are working to finalize a few details that will ensure a smooth and easy shareholder experience. As I mentioned, on February 13, I still intend for the company to set the record date and distribute the dividend in April, of course, watching and reacting to market conditions.

I thank you for your support in this historic and highly important endeavor, one that I believe will bring real value to our shareholders.

Next slide. On to capital. Many of you have asked about the status of our financing efforts. In November, the company entered into an agreement with Jones Trading to sell shares through an ATM or an at-the-market offering. In the fourth quarter, we raised proceeds -- net proceeds of \$34 million through that program. While the prices of the shares we sold in the ATM were lower than I'd typically like to raise capital, both management and the board felt it was prudent to put some cash in the till.

We recently filed post effective amendments to our Form S-3 as a result of losing our WKSJ status. We will continue to engage in good corporate housekeeping activities so we can take advantage of future market conditions.

We recently refinanced our Peace Coliseum headquarters, which provides us with another \$47.5 million in capital. We signed that agreement last week, and the money is now in our account. The interest rate and other terms are good. It is a good time to be a borrower. We have borrowed against the building in the past as we managed the company's balance sheet. And we have paid off prior loans well ahead of maturity.

As I'll highlight later in the call, several of our keiretsu companies raised third-party capital over the last year or so, including most recently, Medici Land Governance. Our shareholders and other stakeholders should view all these activities favorably. Our balance sheet is strong.

Next slide. I mentioned earlier the team's ability to execute. Let me highlight some great additions to our leadership. Part of righting the ship is getting the right people, pulling the right oars in the right direction. We've recently made some changes I believe are accomplishing just this.

First off, I'm pleased Rob Shapiro joined the Overstock Board of Directors. Rob has been serving on the Board of Medici Ventures for the past 3 years and has provided valuable insights into our blockchain business. His wealth of knowledge in both the public and private sectors, including serving as undersecretary of Commerce for Economic Affairs are real assets to Overstock. I look forward to his continued contributions to the business.

I should mention, our board is actively looking for 2 additional board members to augment the skill set of and bring fresh thinking to the board. We are doing so in a careful and methodical way as we want to find the right people.



Let me turn to recent senior executive appointments at Overstock Retail. First, Joel Weight has become our CTO. Joel joined Overstock 9 years ago and has held many positions since then, most recently, as Medici Ventures Chief Operating Officer, and before that, its CTO. I'm thrilled to have Joel rejoin the Overstock Retail team in this key executive role. Joel is a highly skilled technologist who brings 20-plus years of enterprise software architecture, development and growth experience to Overstock. I'm confident his passion for building cutting-edge technology will keep us an innovative e-commerce leader.

I'm also excited about the appointment of Mark Baker to Chief Product Officer. Mark joined Overstock Retail in 2011 and has held many product development roles, including being responsible for building and maintaining many of the website products and platforms that have made Overstock the online retail technology leader it is. Mark's technical track record includes helping Overstock build our supply chain and logistics system, a system superior to those of many of our competitors. Mark has a proven ability to build world-class customer facing products and his appointment is a strategic move to leverage his talent more broadly across our products and platforms.

Many of our shareholders have already had the chance to interact with Alexis Callahan, our new Director of Investor Relations. Alexis has investment banking, public company Investor Relations and blockchain company experience. She is a great addition to our team, particularly as we work to improve our regular communication with our owners about who Overstock is and what we are doing. I trust she will become a valuable resource for our shareholders and analysts.

You'll notice another new face on this slide. Anthony Strong, who has been with Overstock for over 15 years and is our controller, is now our acting CFO replacing Rob Hughes. With Medici Land Governance's recent capital raise, MLG, again requires Rob's full-time attention as its president. I want to thank Rob for graciously stepping in to fill the CFO position while we undertook our executive search efforts to find a full-time replacement. Rob did yeoman's work.

On that note, I'm pleased to announce we found an excellent CFO, and she's accepted our offer. I can't yet disclose her name at this moment. But I can tell you, she has an impressive background and credentials. The entire team is excited to have her join us at the end of the month. I expect we'll make the official announcement about her early next week. It was gratifying that we received a lot of interest from very highly qualified candidates.

Next slide. Because many of you asked, let me give a status update on the regulatory matters. We continue to cooperate fully and engage with the SEC staff to address its questions and requests. We will update our shareholders when the situation warrants. But as of today, there is nothing meaningful to report.

Next slide. The coronavirus is top of mind everywhere. We are taking the situation seriously and monitoring developments closely. I suspect you have questions about how coronavirus might impact our business, so let me address those head on, mentioning 5 points.

First, the situation is obviously very fluid. It is difficult to predict with any certainty what will happen. That said, so far, we have not observed any material impact to our business.

Second, as we've mentioned before, we've taken steps over the years to diversify our sourcing. Chinese manufactured products now have decreased to now represent approximately 50% of our revenue as we source more products from adjacent countries.

Third, our drop-ship partner model should enable us to quickly pivot and react to market shocks. Because we are online-only and have no physical footprint, any reduction in retail foot traffic really has no negative impact on us. In fact, it's the opposite. If people are forced to stay at home, they may shop online instead.

Fourth, relating to product in our supply chain, one of our competitors in the home furnishings space recently announced forecast reductions on its earnings call. I suspect this is a good thing for Overstock and our supply chain as this competitor works with many of our dropship partners. This change may make more inventory available for us to sell. As an aside, the change also provides an opportunity for us to gain market share in the growing online home furnishings market.



Fifth, as an organization, we are now encouraging, but not yet requiring, our employees to operate on a remote basis. Because we have prepared for this in the past, there has been minimal operational disruption in rolling this out.

Next slide. Before turning to the business updates, let me address another question I frequently hear. How should I think of Overstock? Is it a retailer or a blockchain company?

Overstock is, at our core, a technology company. We started as an innovative e-commerce company over 2 decades ago. And today, we continue to innovate using technology to optimize commerce and fundamentally change the way people will transact.

On the retail side, we are using machine learning and artificial intelligence to better the customer shopping experience. And our technologists are focused on improving the website to be faster and easier to use and navigate.

At the Medici Ventures keiretsu companies, including tZERO, we are using blockchain technology to change the way commerce is done.

When you think of Overstock, think technology. And think innovation.

Next slide. With that, let's dive into the business updates. Dave Nielsen, President of Overstock Retail, will talk about fourth quarter performance and what we see on the horizon.

David J. Nielsen *President of Overstock Retail*

Thank you, Jonathan. Next slide. Let's jump right into fourth quarter business performance. Adjusted EBITDA came in as expected, which was 60% favorable to the comparable quarter last year, a \$10 million improvement. Looking at it through the lens of including only Overstock Retail's portion of the shared services, our retail adjusted EBITDA came in at a negative \$2 million. Our full year 2019 adjusted EBITDA improved by \$90 million, which was an 81% improvement. And we continue to focus on achieving sustainable, profitable growth. These results are in line with where we thought they would be, as the team continues to focus on customer experience, promotional model improvements and expense management.

Next slide. Our fourth quarter contribution came in at \$35 million, which equates to a 7% improvement year-over-year. For the full year, we came in at \$148 million, \$70 million above last year, an 89% improvement. We began righting the ship in late 2018, and we'll continue to focus our efforts on this turnaround. In spite of some of the tariff and logistics headwinds we experienced in the second half of 2019, we allocated our resources to ensure that our core, profitable focus areas had the most attention. We continue to bring in quality assortment, drive compelling promotions and provide a customer experience that will continue to drive our contribution going forward.

Next slide. Some additional Q4 financial results demonstrate Retail's significant progress. Gross margin improved by 275 basis points year-over-year to 20.7%. And contribution dollars correspondingly improved, as described on the previous slide, with contribution margin improving by 233 basis points year-over-year to 9.7%.

Next slide. Our annual results show how our strategy to return to our core principles of sustainable, profitable growth is already evident as several of our key performance indicators are moving in the right direction again. 2019 gross margin improved by 74 basis points to 20.1% versus last year, and contribution margin improved by 595 basis points to 10.3%. That translated into a contribution dollar increase of 89% to \$148 million, a \$70 million improvement year-over-year. We are committed to achieving sustainable, profitable growth. As a pure-play e-commerce retailer, we are well positioned to quickly adjust to a winning strategy.

Next slide. As we mentioned last quarter, Overstock Retail is in a large and growing market that has not yet seen significant online migration. The home furnishings market is a \$300 billion market, with online representing only 23% of the total, and which was estimated to grow 16% last year. We're also proud to say that we are the fifth largest home furnishings brand online, where the market is projected to continue its double-digit growth. As customers become more and more comfortable buying online, our 20 years of experience in this space make us well positioned to capture online migration market share.

Next slide. The customer research that we've done continues to drive our focus. The 2 segments that play to our strengths and in which



we have chosen to focus represent 40% of the home furnishings market or roughly \$120 billion. These customers already over-index for shopping with Overstock. They are deal driven and want low hassle experience. Our strategy is to continue to optimize our site for those customers by accommodating for their unique shopping preferences throughout our website. We will leverage our analytics and machine learning models to ensure we create an experience they love. And that starts with a clear, focused strategy.

Next slide. Overstock aspires to create dream homes for all, and we have consolidated our vision and our focus into a single slide. We know that to drive sustainable, profitable growth, we must focus on our customers' highest needs. Focus is a principle you'll hear us reinforce relentlessly. We have 3 brand pillars of focus that we've shared with you in previous calls: product findability; smart value; and easy delivery and support. On the following slides, we'll share with you some KPIs that we use to evaluate our progress against these objectives, and we share these with you so that you can hold us accountable in our progress against our strategy.

Next slide. We measure product findability, in part, by the time it takes customers to engage with their first product. As you can see on the chart on the left, we have improved significantly, which indicates that our search and navigation efforts have made it easier for customers to find what they're looking for. Site speed also matters. As research indicates, customers are highly sensitive to page load speed, and as you can see from the chart on the right, we have reduced our page load time, particularly in mobile, over the course of the year. We continue to look for ways to make our website faster and more responsive.

Next slide. The second component of product findability, aside from speed, is relevance: making it easy for customers to find the products they want. We've made site search improvements over the past year, which has led to higher site search conversion. People engaging with our site are more likely to buy year-over-year, and this is a big focus for us in the coming year as well.

Next slide. Of our 3 brand pillars, smart value is of most importance to our customers. And we are proud to share that over the holiday season, Overstock was the fifth most mentioned retailer for having shoppers' favorite online shopping experience.

We see customer satisfaction reflected in their increasing perception of our price advantage over other retailers. We've tasked ourselves with cost reduction initiatives that will enable us to further drive down costs so that we then can pass those savings on to our customers.

Next slide. And talking about costs, one of our biggest is returns. We've focused on streamlining our supply chain and removing other areas of friction, which help to drive down those costs so we can maintain our competitive pricing for our customers.

Next slide. The growth of private label within our business represents a focus on quality and, in particular, an assortment of high-quality products. Our private label items have among the highest reviews, lowest shipment time and best site content, which makes for an improved experience for the product on our site.

Next slide. For our third brand pillar, easy delivery and support, we are encouraged to see our 28-day repeat purchase rate increased year-over-year. Customers are demonstrating their satisfaction with Overstock by returning again soon to buy with us. The loyalty of our returning customers contributes to the confidence in our ability to achieve sustainable, profitable growth.

Next slide. One of the most important determinants in customer purchasing decisions is delivery timing. Through prioritized inventory positioning, machine learning modeling, and partnerships with our suppliers, we increased the number of 2-day shipment items by 188% in the fourth quarter versus the prior year period. Our machine learning algorithms predict delivery based on historical data, and they continue to learn and improve. The two biggest factors in shipment speed are partner fulfillment capabilities and shipping carrier speed. Our partners increased their same-day ship confirms by 8% year-over-year, and UPS helped us to recover from a disappointing prior partnership to ensure carrier speed bounced back in the fourth quarter.

Next slide. In our last earnings call, we shared some of our fourth quarter business projects that support our 3 brand pillars. We've made strides in all of them, and we'll continue to work on many of them. We identified mobile experience as a key focus for 2020 and spent much of the fourth quarter on web analytics and customer research to understand and prioritize the work. We added resources to this project and have made a lot of progress since then. We also focused on improving our machine learning models and personalization to improve product-findability. Our goal of providing smart value was supported by efforts to reduce returns costs, expand private label,

strategically position doorbuster inventory and test new promotional strategies. We made progress in providing easy delivery and support by extending the returns window for our loyal Club O members, by improving our machine learning models for accurate delivery, and by testing 1-day shipping messaging.

Next slide. Going forward, we remain focused on our 3 brand pillars. For product findability, we will leverage analytics and research to improve our mobile web experience, refine our machine learning models for better relevance and improve our product content. For smart value, we are focused on ensuring our promotional messaging and model is clear and valuable to our customers, and we'll also work to continue lowering our logistics costs. Finally, for easy delivery and support, we'll continue our integration and refinement of our machine learning models, strategically positioning inventory, and improve our customer self-service support experience.

Next slide. The home furnishings market is a \$300 billion market and growing. It is increasingly moving online. We are locked into our two customer segments that play to our strengths and that represent 40% of this \$300 billion market. We have deployed a solid strategy and established focused initiatives that we'll execute against in order to return to sustainable, profitable growth.

With that, let me turn the time back to you, Jonathan.

Jonathan E. Johnson *CEO of Overstock and President of Medici Ventures*

Thank you, Dave, and I'm excited about our initiatives and focus. And I'm pleased at how the team is executing on our turnaround.

Let's now turn to Medici Ventures and discuss some of the progress being made there. Slide 31. As we always do, let's begin by discussing tZERO. Saum Noursalehi, CEO of tZERO, will talk about some of tZERO's recent progress and go-forward priorities.

Saum Noursalehi *CEO of tZERO*

Thank you, Jonathan. 2019 was a productive year for tZERO. We achieved several key milestones, setting the stage for our continued success this year. As I previously mentioned, much of our focus last year was on building. We allocated our capital, both human and financial, on meeting and advancing regulatory requirements, developing our trading technology and building the leadership team needed to drive our company vision. In addition to advancing our platform, we shifted our focus towards growth and adoption, where we have been making good progress. I will discuss this further, but first, let's start with an overview of what we do.

Next slide. tZERO represents the next-generation capital markets platform, which ultimately allows assets to be digitally represented in the form of security tokens and provides a compliant way for these tokens to be traded. We connect issuers looking to raise capital and access liquidity with investors interested in trading these securities. For example, in the fourth quarter we signed an agreement with Alliance Investment to tokenize \$25 million of River Plaza, a commercial real estate project in Manchester. Upon concluding their capital raise, which is in progress, we intend to tokenize the asset and have it trade on the tZERO ATS. Customers of broker-dealers participating on our ATS will be able to buy and sell that security. Effectively, we are providing River Plaza's investors with secondary liquidity while simultaneously democratizing access to a unique asset that many investors wouldn't traditionally have access to.

Slide 34. While we only launched our platform last year, our recent activity relative to other marketplaces is significantly more robust. In 2019, we had over 2 million shares traded, representing \$5 million of value transacted and roughly \$23,000 traded per day.

Slide 35. In addition to our digital security ecosystem, we launched the Crypto app, which is gaining traction. The app went live in June, and we have seen -- and we have since grown the user base 10x from 600 accounts to nearly 6,000. Note that this is with very little marketing, while also working to receive the necessary licenses to allow customers from states such as New York to sign up and create accounts. This growth is encouraging, and we expect that these customers will be able to trade securities down the road through our broker-dealer, broadening our investor base.

Slide 36. You can see we have 3 overarching priorities this year: increasing the number of high-quality assets trading, enhancing liquidity on the platform; and creating a world-class experience for trading digital securities.

Slide 37. Our first priority is to list more assets on the tZERO ATS. This can be broken down into 3 categories: new offerings, which



includes assets such as River Plaza, which are undergoing a capital raise and would like to distribute that asset to investors in the form of a digital security. This is the largest category of issuers we have, and we expect to have more deals signed shortly. Our broker-dealer subsidiary has also signed a number of commission-sharing agreements with various placement agents and broker dealers. Since our last earnings call, we signed 3 new commission-sharing agreements, bringing our total to 11. This is in addition to another 10 to 15 firms that we have informal relationships with. These partnerships become very important to help our issuers with their capital raise and will eventually help us source new deals for digital offerings.

The second category is aimed at tokenizing existing assets. This would include companies or assets that aren't looking to raise capital, however, would like to offer their existing employees or investors with secondary liquidity. We have fewer of these opportunities compared to the first category. However, we are refocusing on this opportunity set and are in discussions with roughly a dozen companies.

The last category are existing securities that were issued using other digital technology protocols. We are speaking with several issuers that are represented -- that are interested in trading on the tZERO ATS and accessing our investor base. This category, we did expect to have an additional security trading at this time. While we completed the necessary due diligence and tech integration, the issuer, who has a significant pool of Asian investors, decided to hold off given the recent market volatility. We believe this is a transitory headwind and expect to have the security trading when the markets moderate. We have a strong pipeline of potential issuers, which now exceeds 200 prospects and continues to grow despite current market challenges.

Slide 38. Our second priority is to enhance liquidity on our ATS. We are approaching this from a few angles. First, the OSTKO digital dividend, which was recently approved by Overstock shareholders. This is an important milestone. Broker-dealers representing Overstock shareholders who received the dividend shares will need to access our ATS to enable their clients to trade the digital dividend. I am pleased to note, we are already experiencing an increase in interest from broker-dealers representing Overstock shareholders. We encourage any broker-dealers interested in our ATS to reach out to ir@tzero.com. The process is straightforward.

The second is through our proactive outreach to third-party broker-dealers as well as launching our own broker-dealer. tZERO's ATS has signed agreements with 5 third-party broker-dealers and just completed technology integration with one of them, ChoiceTrade. In total, we have roughly 100 potential broker-dealer prospects that we are in discussions with. In addition, we're targeting a second quarter launch of our retail broker-dealer tZERO markets. This is, of course, contingent on receiving regulatory approval. Lastly, our JV with BSTX is also making progress. BSTX recently amended the rule book that was published, and regulators extended the comment period. BSTX expects the decision from regulators in the second quarter.

Slide 39. Our third priority is to create a world-class investor experience. Over the past several months, we have made numerous enhancements to our product. We increased the daily investor onboarding capacity from roughly 5 per day to around 1,000. We added enhanced charting and order book functionality to our ATS. tZERO ATS made its current market data publicly available on tzeroats.com, and we decreased the total load time of the tZERO Crypto app to under 3 seconds on IOS. Android will follow shortly. Looking ahead at our product road map, we plan to support the distribution of the OSTK digital dividend, integrate and support the Tezos Blockchain in our token protocol, complete technology work to support BSTX and tZERO markets, support multiple clearing firms, and lastly, we expect to introduce the capability to trade security tokens on our app.

Collectively, we believe these enhancements will meaningfully improve our products and investor experience. Overall, it's been a very busy start to the year at tZERO. We see the most effective way to increase value for our stakeholders is by focusing on growing the supply and demand sides of our business. This will be achieved by trading more assets, enhancing liquidity and improving the experience investors have on our platform. I look forward to keeping you abreast of our progress in the year ahead. And with that, I'm going to turn it back over to Jonathan.

Jonathan E. Johnson *CEO of Overstock and President of Medici Ventures*

Thanks, Saum. TZERO has made real progress over the last several months.

Next slide. I look forward to an acceleration of those trends given the various catalysts in place.

I'll now provide a few additional updates on Medici Ventures. Notice the new addition to our identity pillar, Vital Chain. In a moment, I'll talk about it and another of our keiretsu companies that's made notable recent progress, FinClusive.

Next slide. Before I do that, I want to reiterate the Medici Ventures mission statement and talk about our model. Medici Ventures' mission is to change the world by advancing blockchain technology, technology that will fundamentally change the way in which people transact. Just as the Internet changed the way people transfer information, blockchain technology will change the way people transfer digitized assets.

To be clear, we are still in the early days of blockchain adoption. But I believe it is only a matter of time until mainstream adoption occurs. For that to really happen, people need to know how and why blockchain solves real world problems, not just how the technology works. We view that as part of Medici Ventures role as an evangelist educator. We're committed to increasing public awareness of blockchain use cases, the value they bring and do so through public engagement and policymaker outreach.

Next slide. Medici isn't just in the business of funding startups. We are also an accelerator. We don't just provide capital, we also offer to help our keiretsu companies extend their runway to profitability, including offering them product development and design services, public and government relations services and assistance in raising capital when they need it. It may not be widely understood, but Medici Ventures has an extraordinary team of over 50 enterprise-grade blockchain developers and designers on staff. We make this world-class development team available to our keiretsu companies at their option in a flexible and highly cost-efficient manner and on an as-needed basis. From time to time, Medici Ventures also makes these resources available to Overstock Retail as needs arise. We really do view our keiretsu as a family, and we are committed to helping these companies make real progress and get products in production.

Next slide. Speaking of family, we're pleased to announce our newest addition. Vital Chain utilizes blockchain technology to digitize birth and death certificates, also known as vital records. It then integrates those digitized records into various health systems and state agencies that need to keep track of them, which reduces the risk of fraud and enables more efficient benefits management.

The company's founders are proven entrepreneurs, having successfully launched and grown another blockchain startup. Vital Chain already has a partner, the Cleveland-based MetroHealth Hospital, with an agreement in place to develop and test the Vital Chain product. We are excited to add Vital Chain to our keiretsu. It helps advance our progress in the identity space, since vital records play an important role in and are a base layer of personal identity and, ultimately, self-sovereign identity.

Medici Ventures' participation in Vital Chain is solely through the sweat equity model, where we provide a team of developers for the next year in exchange for a 20% ownership interest in the company.

Next slide. I'll highlight FinClusive, another keiretsu company that's made significant progress. FinClusive uses blockchain technology to provide low-cost, highly secure digital banking and compliance solutions to underserved individuals and entities globally, the unbanked and underbanked.

In the first half of 2019, FinClusive began offering compliance as a service, which provides customer due diligence checks, know your customer and anti-money laundering compliance services. Last November, we introduced its second product, banking-as-a-service, which uses several banking partnerships to provide ledgering and sub-ledgering services and the facilitation of funds transfers.

FinClusive also launched the compliance and payments task force, which brings together over 100 global fintech and crypto companies, banks and regulators to define a global standard for AML compliance.

Importantly, FinClusive has filed for 10 patents and will continue its IP-related efforts this year.

With its compliance and banking products and production, FinClusive is turning its attention to sales and revenue generation as we move forward in 2020.



Slide 45. As I mentioned earlier, one of Medici Ventures' roles as a blockchain accelerator is to help our keiretsu companies extend their respective runways to profitability.

We're already seeing success in this area. During 2019 and the first quarter of 2020, our keiretsu companies have collectively raised \$85 million in total capital, \$63 million of which came from third-party investors, with Medici Ventures contributing the balance in the form of direct investment and conversion of inter-company payables, notes and sweat equity.

In addition to our excitement at the very real progress our keiretsu companies are making, we are pleased to see our companies raise outside capital. This third-party funding reflects the market's validation that we've made good decisions and that our keiretsu companies have excellent business models. It also means we can slow down the amount of future investments, being highly selective and focusing on sweat equity.

Slide 46. So with that, let me recap. It's now been 7 months since I took the helm. I hope our owners and stakeholders recognize the work we've done and the progress we've made. While some of this work may not be readily apparent in our fourth quarter results, we've laid the foundation that will set us up for success going forward as we execute against our focused initiatives to return Overstock Retail to sustainable, profitable growth and continue to advance our blockchain businesses. Even in the face of uncertainty, we've planned carefully and are confident our balance sheet is strong so that we can achieve these goals.

In closing, I'd like to say, as a company, we are more focused now than ever. We are executing on our initiatives and poised for improved performance as we enter this new decade. We are as optimistic as ever and energized by the opportunities that lie before us. We thank you for your support as we embark on this exciting course for Overstock.

With that, Alexis, let's take some questions.

QUESTIONS AND ANSWERS

Alexis Callahan *Director of Investor Relations*

Thank you, Jonathan. We'll now move into the question-and-answer portion of our call. We received a significant number of questions in advance of our call, and we'll address several of those first. We'll then open up the line for a few live questions.

So our first question is related to Retail, and in particular, our main competitor who has made a significant recent reduction in its 2020 growth forecast. Wayfair is scaling back its marketing spend, is the question. Dave, we'll direct this at you, will that make it easier to achieve your goals?

David J. Nielsen *President of Overstock Retail*

Well, we sure hope so. Wayfair scaling back decreases the cost to obtain traffic, everything else held equal of course. We're watching this closely and are adjusting our marketing spend accordingly to take advantage of those changes as we see them come through.

Alexis Callahan *Director of Investor Relations*

Great. And a follow-up on Wayfair. What are the implications for Wayfair stepping back from the market? What percentage of Overstock shoppers also visit one of the Wayfair sites?

David J. Nielsen *President of Overstock Retail*

Yes. Wayfair's stated growth reduction has a potential benefit for all the home goods retailers of several hundreds of millions of dollars annually. We expect Overstock should benefit disproportionately from that amount. And really, because of the traffic. The visits that overlap between Wayfair and Overstock on a typical day are roughly 1/3.

Alexis Callahan *Director of Investor Relations*

That's helpful, Dave. Thank you. One more on retail, where does the company stand on 2-day shipping?



David J. Nielsen *President of Overstock Retail*

2-day shipping is a very important metric to us. We focus on that. It's one of our brand pillars, easy delivery and support. As I mentioned on the call earlier, we improved our percentage of page views with 2-day delivery messaging by 188% year-over-year in the fourth quarter. We're getting close to 30% of our revenue being delivered within 2 days and working on that quickly.

Alexis Callahan *Director of Investor Relations*

Thank you, Dave. One last one on Retail. Anecdotally, we've noticed e-mails from Overstock from Black Friday and Cyber Monday through President's Day offering more than 20% discounts. How can you be so generous and still strive for profitable growth?

David J. Nielsen *President of Overstock Retail*

Well, this is why we believe so strongly in embedding machine learning throughout the organization. We're testing various algorithms that personalize the coupon based on behavioral indicators and margin availability by SKU to maximize return to Overstock. As you can see from our contribution margin performance I covered earlier on the call, we realized an improvement of 233 basis points in the fourth quarter of 2018, and we're moving in the right direction there.

Alexis Callahan *Director of Investor Relations*

Great, thank you. Also top of mind to investors is the dividend. And specifically, potential impact on tZERO. Saum, I'll ask this of you. Has the digital dividend had the desired impact in terms of customer sign-ups and new broker-dealer relationships?

Saum Noursalehi *CEO of tZERO*

Yes, it has. And it's just the beginning. So we've seen an increased interest from broker-dealers since the announcement. We'll update the market when we have more formal agreements in place. In addition, for investors sign-ups through Dino, we really expect that to pick up once we announce the record date and distribution date. And that's the behavior we saw last summer when we made those announcements.

Alexis Callahan *Director of Investor Relations*

Great. Staying with tZERO. Saum, can you provide investors an update on your pipeline of potential token issuers for both your ATS and your BOX JV?

Saum Noursalehi *CEO of tZERO*

Yes, sure. As far as the ATS, as I mentioned, we're in discussions with now well over 200 potential issuers. Several of these issuers are in their later stages, and we expect to have some announcements coming in the near future.

As far as BSTX, it's probably too early to talk about their pipeline. But they've already started business development efforts. So you can expect things once they're approved from regulators to operate, you can expect some announcements around potential issuers.

Alexis Callahan *Director of Investor Relations*

Great. Thank you. And what is the status of the BSTX approval?

Saum Noursalehi *CEO of tZERO*

Yes, as I mentioned earlier, we expect to get a decision from regulators in Q2. So we're very hopeful that in Q2 we'll get a positive answer and that we can move forward with it.

Alexis Callahan *Director of Investor Relations*

Great. And sticking with approvals, what is the current status of the Retail broker-dealer approval?

Saum Noursalehi *CEO of tZERO*

That one, we've been, again, working closely with regulators, and we expect a second quarter launch for that. It's a really exciting milestone for tZERO and it will allow us to marry the web and mobile platforms into one experience.

Alexis Callahan Director of Investor Relations

Great. Thank you, Saum. Jonathan, I'll address a couple of questions around corporate business at large. The question is, there have been a lot of management changes since you became CEO. How do you feel about the team you have in place today?

Jonathan E. Johnson CEO of Overstock and President of Medici Ventures

Alexis, that's a great question. Since I've sat in the CEO seat, Dave and I have taken the time to really evaluate the team. And over the last 6 months, we have made some changes. I am very pleased with the current team. We've promoted within some very capable individuals, and we've also brought in top talent from the outside.

Change in an organization takes time. We were thoughtful and careful about how we manage this change. We did it in a measured way that was the least disruptive to the business. Had we done it all at once, I think it would have been detrimental to the business. But the bottom line is, I can say we're in a good place now.

Alexis Callahan Director of Investor Relations

Thank you, Jonathan. Given recent events, particularly yesterday's market nosedive and trading where it is, is employee retention a concern because of the current stock price?

Jonathan E. Johnson CEO of Overstock and President of Medici Ventures

Well, the stock price is sure at a level significantly lower than we'd like and that, in my opinion, it should be. But we're confident in our ability to execute against our plan and correspondingly enhance shareholder value. Attrition, particularly regrettable attrition, is low. And it's something we monitor closely. Making sure it stays low is one of my key objectives for the year. We regularly hold company-wide stand ups -- we held one just yesterday -- to keep lines of communication open and address potential concerns.

I think the employees are happy with the focus, like the direction of the company, and are committed to us executing on our plans.

Alexis Callahan Director of Investor Relations

Thank you, Jonathan. Related to the stock price, do you think the stock is being manipulated? And if so, are you doing anything to address it?

Jonathan E. Johnson CEO of Overstock and President of Medici Ventures

We're in the business of running a business. That said, we are aware of trading that looked like market manipulation last year. And we notified regulators to make them aware of this odd behavior. I should note that while the stock price is down, we are not on the Reg SHO list, but we continue to monitor it and keep regulators with whom we have an open line of communication well informed.

Alexis Callahan Director of Investor Relations

Great. Thank you, Jonathan. Gigi, we would like to open up the line for our first live question.

Operator

(Operator Instructions) Our first question comes from the line of Thomas Forte from D.A. Davidson.

Thomas Ferris Forte D.A. Davidson & Co., Research Division - MD & Senior Research Analyst

So first, I wanted a point of clarification. So on the supply chain for China, you talked about 50% of your sales are currently supplied out of China. How has that trended over time? And then second, I wanted to make sure that I heard what you said that as of today, March [13] (corrected by the company after the call), you have not seen any noticeable disruption in demand as it relates to the coronavirus.

Jonathan E. Johnson CEO of Overstock and President of Medici Ventures

Great questions, Tom. Supply chain coming from China is now approximately 50% of revenue. That has trended down over the years. Dave, anything to add to that?



David J. Nielsen *President of Overstock Retail*

We shared on the last call, back as far as 2008, 2009, that was 85% of our revenue coming from China or Chinese sourced products. So it's been significantly decreased.

Jonathan E. Johnson *CEO of Overstock and President of Medici Ventures*

Yes. And on your question about what we've seen to date with coronavirus? I will confirm what I said earlier, we've seen, so far, we've seen no meaningful impact on the business.

Thomas Ferris Forte *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

Great. And then as a follow-up, I think Dave indicated that through your legacy home e-commerce base, there's two customer segments that make up 40% and of the total addressable market. Can you give a little more detail on what those two segments are?

David J. Nielsen *President of Overstock Retail*

Yes, those two segments - we've named them: Savannah is our savvy shopper, and Rebecca, our reluctant refresher. Now in both instances with these customers, one is, obviously, looking for a deal. This customer loves our promotional cadence. They are a coupon purchaser. And we have the ability, and we are continuing to build out the ability, as I mentioned, with our machine learning algorithms, to be able to personalize the type of offer that she's looking for.

For the reluctant refresher, it's more about finding what she wants and not being overwhelmed. She wants a no-hassle solution, and that requires some pretty complicated search and rendering algorithms to be able to provide her something a little more assorted, a lot less breadth.

Jonathan E. Johnson *CEO of Overstock and President of Medici Ventures*

Let me just comment, put a footnote on that. These two market segments are not chosen randomly. They are the market segments, they are the customers that has a natural affinity for Overstock. So, they represent 40%, we think, of the market, but they are people that are looking to purchase from us and already have an affinity with us.

Thomas Ferris Forte *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

Then one last question for me. On Wayfair, you talked about the opportunity as it pertains to more cheap traffic or being able to get traffic less expensively. And you talked about the supplier opportunity. It seems to me that this could be a catalyst to accelerate your return to profitable sales growth for your legacy home e-commerce biz. Can you give any...

Operator

Our next question comes from the line of Brad Safalow from PAA Research.

Jonathan E. Johnson *CEO of Overstock and President of Medici Ventures*

Brad, before we go to you, let's answer Tom's question. On traffic, we see Wayfair's revised guidance as a place where we can increase traffic. And as I mentioned, we share a lot of suppliers with Wayfair. With its revised downward guidance, those suppliers have product in pipeline. We think the pipeline is full. Dave, what else would you add to that?

David J. Nielsen *President of Overstock Retail*

This will play out more over time. When they tune down their marketing models, which is what you would anticipate, it takes some time for those to burn in, as we've talked about in the past with some of the ebbs and flows we participated in. As we see that, the inventory availability to us is the real opportunity there.

Jonathan E. Johnson *CEO of Overstock and President of Medici Ventures*

Brad, sorry to cut you off.



Bradley G. Safalow PAA Research LLC - Founder & CEO

It's okay. First question really has to do with management and the Board of Directors. One of the things that, I guess, I've been hoping would change is that we'd see an increase in the ownership of the stock by you, other key members of management, the board. Have you guys contemplated instituting a required stock ownership amount for high-level executives or the board? I think it's something that would obviously signal some confidence to the market and certainly is something that feels like it's long overdue, at least from my perspective.

Jonathan E. Johnson CEO of Overstock and President of Medici Ventures

Brad, thanks for that question. We have not considered that. It's an interesting suggestion that we will consider. Some of us have purchased shares relatively recently. But remember, we've been in a blackout period for quite some time, which prohibits us from doing that. I know there are some who are eager for a blackout period to end.

Bradley G. Safalow PAA Research LLC - Founder & CEO

Okay. Is it the digital dividend that is catching the blackout period? Or is it something else?

Jonathan E. Johnson CEO of Overstock and President of Medici Ventures

Well, part of it is just the end of the year, we -- where we've waited until today to file our 10-K without those results coming out, that's kept us in -- we're working to have a trading period open for some period, at least a short period because we're already fairly close to the end of Q1.

Operator

At this time, I'm showing no further questions. I would like to turn the call back over to Jonathan Johnson for closing remarks.

Jonathan E. Johnson CEO of Overstock and President of Medici Ventures

Gigi, thank you, and each of our shareholders, we thank you.

We're focused. We're working hard. We are frustrated by the current stock price. We don't think it's a fair representation of the value of the company. But all we can do is execute on our plans to try and deliver value to you, and that's what we're doing every day all day. We'll talk to you at the end of Q1. Thanks.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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