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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Second Quarter 2019 Overstock.com, Inc. Earnings Conference Call. (Operator Instructions) As a reminder, this call is being recorded. It is now my pleasure to introduce Chief Financial Officer, Gregory Iverson.

Gregory J. Iverson *Overstock.com, Inc. - Chief Financial Officer*

Good afternoon, and welcome to our Second Quarter 2019 Earnings Conference Call. Joining me today are Dr. Patrick Byrne, Founder and CEO; Saum Noursalehi, CEO of tZERO; Jonathan Johnson, President of Medici Ventures; Dave Nielsen, President of Overstock Retail; and Seth Moore, Chief Strategy Officer of Overstock Retail.

Let me remind you that the following discussion and our responses to your questions reflect management's view as of today, August 8, 2019 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 our Form 10-K for 2018, our subsequent filings with the Securities and Exchange Commission, and in the press release filed today. Please review the forward-looking statements disclosure on Slide 2 of today's presentation.

During this call we will 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.

With that, I will turn the call over to Patrick.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Thank you, Greg. You see our agenda. We will be discussing Medici beginning with and focusing on tZERO, not neglecting other members of our Medici keiretsu. Then turning to retail, the magnificent company which spawned all this wonderful blockchain keiretsu. Then to Q&A. Next.

We'll be turning to Medici ventures, Jonathan Johnson who has orchestrated this wonderful symphony. Handing it over.

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

Thanks, Patrick, going to Slide 5. As mentioned in previous earning calls, Medici Ventures continues to focus on building and advancing a blockchain tech stack for society. We have nearly all the critical components in place, so we don't expect to grow the keiretsu as aggressively as we have in the past. Every month we get more comfortable with the ability of our current keiretsu companies to deliver on our vision of a blockchain tech stack for society. We continue to support the growth of the companies already in the Medici Ventures family and help them interoperate in a symbiotic way as we build a government-as-a-service solution.

Slide 6. Each of our keiretsu companies continues to build and deploy meaningful products. Today we'll focus on a few that have hit significant milestones in the previous quarter. As we have in the past, let's begin with tZERO. Saum.



Saum Noursalehi tZERO Group, Inc. - CEO of tZERO

Thank you, Jonathan. We've continued to execute against the strategic roadmap we laid out last quarter. If you go to Slide 8.

These are some of the key milestones we've delivered this year. It's been a busy year. This slide shows the steady stream of achievements that have come in. I'm going to highlight many of these in the coming slides but wanted to call out the last two.

On August 6 we announced that we were awarded a patent for how traditional systems can be anchored into the blockchain. This is the second patent this year and we see it as complementary to the first.

The last item, you see is that in a few days we expect to trade the tZERO token among non-accredited investors, so for those tokens to become freely tradeable. Slide 9.

Patrick M. Byrne Overstock.com, Inc. - Founder & CEO, Director

Before we go on, may I just point out that it was over a year ago, Saum laid out a roadmap that seemed unbelievably compressed to a number of people. And if you go back and check, he has hit essentially every date, maybe some slid a week or two or something like that. But, he has brought to life, in just 15 months, this is an incredible set of achievements that I actually don't think the market has recognized the significance of what these all stack up to. Go ahead.

Saum Noursalehi tZERO Group, Inc. - CEO of tZERO

Thanks, Patrick. Next slide.

This is Slide 9, the security token ecosystem. As you can see, we've made significant progress here. We completed on the left, the tokenization technology which lets issuers digitize their assets and also on the top right in blue, you see we signed up a second broker-dealer, ETC, to trade security tokens. We're in conversations with additional third-party brokerages. To create liquidity we want to make sure we allow multiple sources of brokerages to access this new ecosystem. We've also filed for our own new member application, for our own in-house retail broker-dealer. Slide --

Patrick M. Byrne Overstock.com, Inc. - Founder & CEO, Director

Can you comment on the recent announcement of an Overstock dividend, what that has done for you in terms of --

Saum Noursalehi tZERO Group, Inc. - CEO of tZERO

Yes. Actually we will get to that, but the dividend we recently announced, OSTKO, will bring 40,000 to 50,000 new customers to this new ecosystem. A huge advantage in getting adoption for our platform, and in addition we've had a significant outreach from many broker-dealers, big-name broker-dealers, that are interested in participating in security tokens. We have all the technology to power them and give them access to security token trading.

Patrick M. Byrne Overstock.com, Inc. - Founder & CEO, Director

Thanks.

Saum Noursalehi tZERO Group, Inc. - CEO of tZERO

Okay. Next slide. This is a list of the company priorities which we further refined. The first, onboard quality assets; enhance liquidity; launch the new version of our DLR, Digital Locate Receipt platform; and get our national exchange BSTX live. Slide 11.

The first priority is to onboard quality tokens. To achieve this, we launched OSTKO as the second token on June 27. This is a digital preferred share of Overstock's public stock. We announced an LOI to tokenize the first major motion picture, Atari, which is produced by Leonardo DiCaprio's production company. We think this has the opportunity to massively disrupt how the film [industry] (added by company after the call) raises capital.

We've hired -- and it's not listed here, but a Head of Issuance, Brooke Navarro, a managing director from Barclays, to lead the issuance effort and we're having ongoing conversations with many potential issuers. Slide 12.

To enhance liquidity, since we got the trading platform live, it's going to be key to make sure it's a liquid market. On June 14 we filed the new member application for our own broker-dealer. We launched the tZERO Crypto App on both iOS and now Android which will be the foundation for trading all digital assets once we're approved as a retail broker-dealer. We announced OSTKO's dividend which we just spoke about, which is again, very important for adoption of our platform and getting big-name brokerages plugged in.

On August 12, just in a few days, the tZERO token will become freely tradeable by non-accredited investors, and we're in conversations with many other broker-dealers interested in trading security tokens. Slide 13.

Some of the other initiatives, our third priority, launch and scale the securities lending product. We completed the market data feed portion of this which aggregates the supply of hard-to-borrow inventory from multiple sources, and we're working on the next phase of that which is to integrate this technology with our order management service, which will allow short sellers or the demand side to make bids and get locates on pre-borrows.

We're currently targeting October to complete that.

Lastly, we are working on our joint venture with BOX Digital to launch BSTX. This is our joint venture and we're working closely with regulators on this and aiming for a late 2019/early 2020 launch. Slide 14.

Lastly, we made some significant additions to our human capital. Brooke Navarro, whom I mentioned, is Head of Issuance, from Barclays. She has over 10 years of experience in capital markets. Mike Mougias is Head of Investor Relations with over a decade of experience coming from IMAX Corporation, and last but not least, Alexandra Sotiropoulos is Head of Communications, who joined us from Intermarket, the financial PR firm.

I'm going to turn it back over to Jonathan, our Chairman, who's managing our strategic investment project.

Jonathan E. Johnson *Overstock.com, Inc.* - *President of Medici Ventures, Director & Chairman of tZERO*

Saum, you've done a great job advancing tZERO and we're all excited about the work you and the tZERO team are doing and to see tZERO product get in the hands of customers.

So focusing on Slide 15, let me briefly discuss the status of tZERO's strategic investment efforts. First, Makara has completed its due diligence efforts and is in the process of taking a proposal to its investment committee. We will update our owners as this materializes.

Second, I remind you that GSR made a \$5 million investment in tZERO at a \$1 billion post-money valuation. That investment was to be \$2 million in cash and \$3 million in Hong Kong Exchange-based stocks. We've collected the \$2 million in cash. Because of some technical difficulty in transferring the stocks GSR is now liquidating those stocks it had contracted to transfer to tZERO and will pay tZERO the remaining \$3 million in cash. We expect tZERO to have received that remaining \$3 million in cash by the end of this month. It will be at that point we will issue tZERO equity to GSR. Next slide.

I'd now like to shift focus to three other companies which have also hit significant milestones since our last call: Medici Land Governance, Bitt, and Voatz. Next slide.

I'll start with Medici Land Governance and highlight three of its recent developments. First, MLG announced that after its successful fall 2018 initial pilot land titling project in Lusaka, Zambia, it has now signed a memorandum of understanding with the Lusaka City Council to significantly expand land titling and administration in and around the capital city of Zambia. With a population of approximately 2.5 million people in its metropolitan district, Lusaka is one of the fastest-growing cities in Southern Africa.

Second, MLG signed a memorandum of understanding with Liberia's Ministry of Finance and Development Planning. This MOU is expected to lead to a pro bono pilot project exploring the potential for the digitization of existing government services and the development of eGovernment platforms in Liberia. We believe this pilot could lead to further opportunities in Liberia for MLG and other



Medici Venture companies developing applications for our broader government-as-a-service concept.

And third, MLG completed its earlier project with Teton County, Wyoming, making Teton County the first county in the United States to record land information on a blockchain-based platform. Teton County land record activities going back to 1996, including warranty deeds, mortgages, release of liens and other similar documents, are now stored on a system using MLG's technology designed to track, record and make this information available to the public in a transparent and immutable way.

Patrick, do you want to comment on this at all?

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Yes. Our strategy here as I've mentioned before, has been some pro bono projects that gave us the reason and the customer for whom to build specific tools, different tools, in the case of each project. We have each reached the point where those different tools and platforms that we've created snap together and create pretty much, what's certainly the most advanced blockchain land governance system in the world. We're really at the cutting edge in Africa, like using drones and all that stuff that you're hearing about. We're at the cutting edge of all that.

So those have snapped together into a very valuable platform and I think people are going to be surprised at how lucrative this may turn out to be; that's not the only reason we did it. We think it has kind of world historical benefits. But this is not a pro bono project at the end of the day. We have developed a very interesting and advanced blockchain-based land governance platform way ahead of anything in the world. I can say that with confidence. This is the technology they now have, now all snapped together, is way ahead of anything out there.

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

Patrick, I know you and I couldn't be more pleased with the products in production and progress that Medici Land Governance is making. Let's look to the next slide, 18.

Next, I'll focus on Bitt, which is our financial services company in Barbados. Bitt's digital money product, mMoney, launched in Barbados in December of 2017. It has been operating in the Central Bank of Barbados and Financial Services Commission regulatory sandbox. While in this regulatory sandbox, Bitt was under a full review of its anti-money-laundering compliance processes and an audit of the mMoney operation. Bitt recently announced the mMoney has graduated from and exited the regulatory sandbox. This is a big deal.

Bitt is now a candidate for regulation under legislation that is being currently drafted, and Bitt now has the stamp of approval from the Central Bank of Barbados and Financial Services Commission. I hope you can understand why we think this is such a big deal. These developments should provide great comfort to Bitt's potential partners and to consumers.

Beyond the mMoney product, Bitt is making steady progress developing its central banking product for the Eastern Caribbean Central Bank. Bitt continues to grow and use a development team at Medici Ventures for those development efforts, and we are seeing great collaborations between the teams in Barbados and Utah. Patrick?

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Is it fair to say that our shareholders should think of the mMoney product and the Central Bank, the digital Central Bank, as two products that snap together in a sense?

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

Absolutely. Without the mMoney product, the central banks are less likely to issue digital currency. Having issued digital currency, having an mMoney application that citizens can use to use and transfer that digital currency is the key. So we talk about them separately, but they're really two halves to a whole circle.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Right. And Jonathan is on the board there and has played a key role in helping this company emerge. A great company. That mMoney product has been out there for a year?

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

December 2017.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

So almost two years, now. So we are now just finishing up the Central Bank half of that, is that a fair elucidation?

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

Yeah. The development team in Salt Lake is working closely with the Eastern Caribbean Central Bank on its requirement. The development process is going well. Our team in Salt Lake was in St. Kitts in July meeting with the Central Bankers and their technologists. We're very pleased with the progress of the development.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

And I love that we'll be bringing that live, and to -- it's 600,000 people, 800,000 people live in the Eastern Caribbean community. So, in a community of that size, a financial system of that size before we're moving on to bigger projects.

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

The size is great because it's relatively small, but it's also got eight different countries which makes it an even better sandbox because you're dealing with cross-border transactions within a Central Bank community. It's really a perfect place to start.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Yes.

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

Turning to Slide 19, for the third earnings call in a row I'd like to highlight Voatz. Last time I suggested that next on the roadmap for Voatz would be more states and municipalities adopting their product and technology. It so happens that the next opportunity for Voatz is right here in our own backyard. Utah County, the second largest county in Utah, is piloting the Voatz Mobile Voting app in its municipal primary elections in August.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

This August. This month.

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

This month, yes. Thank you. It will offer the blockchain-based voting services to active duty military, their eligible dependents, and other overseas voters. It's nice to see the steady progress that Voatz is making.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Another opportunity. Americans are ready for a solution to the voting. I mean, there's no one who believes anymore, in the sanctity of the voting system as it exists.

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

I'd just make two comments on this, Patrick. One is, I think the way to adoption is first overseas voters, and that's the thin wedge that Voatz has entered with. Next it will be disabled voters who need access under the Americans with Disabilities Act. Then it will be vote-by-mail voters and then, frankly, it'll be everyone who will want to use this as an alternative. So I think that's how Voatz expands its footprint to be larger and larger.

I'd also mention yesterday I was reading a Harvard Business Review article which was published [a couple of days ago] (corrected by company after the call), on how to get out the vote. And its number one thing was, get out the vote should be non-partisan in nature. Frankly, that's what Voatz is. It's a non-partisan company that's helping make it easier for people to vote where it's been difficult for them to vote.



Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Hallelujah, brother.

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

Let's go to Slide 20. We've highlighted just four of our keiretsu companies. That doesn't mean that the others aren't making progress. Each is at its own pace and several are working together. For example, this quarter I was in Washington, D.C. with the CEOs of GrainChain and Vinsent, as they presented to the legislators and regulators how blockchain is being used in the supply chain area. Several of our keiretsu companies use Netki as an identity vendor and, of course, our world-class development team in Medici Ventures is working with some of our keiretsu companies to help develop products and get them into production.

The symbiotic nature of the keiretsu model is really blossoming well. To close out, Medici --

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Can I footnote that? --

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

Please.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

When I think of value that maybe people on the outside don't understand, having started different companies and this has been proven to be such an accelerator, especially since Jonathan took it over, got it organized like this. It has been such an accelerator. The advantage to these companies for being connected within Medici, and the frankly for Medici to be connected to a 1,600-person tech company, retail/tech company, is letting us put distance.

I had been expecting by this point, others to be catching up with us in different areas and instead it seems to me that we're putting distance between ourselves and competitors in these different companies.

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

The benefit of Medici Ventures being part of Overstock and the retail organization as our brother-in-arms on this has just been really, really important. So thanks for noting that.

To close the Medici Ventures section of the presentation, let me remind our owners that 2019 continues to be the year of product in production for the Medici Ventures keiretsu companies. While we look to fill our identity pillar, it feels like our keiretsu is reaching its right size. Moving forward we plan to focus on supporting the growth and development of our existing companies. We will, of course, continue to keep a finger on the pulse of the industry and to even reach out proactively on interesting opportunities, but we will only add if we find just the right addition to the family.

So Patrick, with that I'll pass it back to you to discuss the retail business.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Thank you, Jonathan. Now, to Overstock retail. Dave Nielsen, our President of Retail, take it away.

David J. Nielsen *Overstock.com, Inc. - President of Overstock Retail*

Thank you, Patrick. While we anticipated a small loss due to the weak seasonal nature of Q2, our retail business has snapped back quicker than anticipated, delivering positive adjusted EBITDA. As Patrick has mentioned on our previous earnings calls, many expected this turnaround to take years to return to profitability.

We first began speaking of turning this ship three quarters ago, and as you can see from Slide 22, we've beat our estimate and delivered positive adjusted EBITDA of \$2 million within three quarters. This is the first positive adjusted EBITDA quarter since Q2 of 2017.



Before we go any further into the financial results, I'd like to turn the time to Seth Moore, Chief Strategy Officer of Retail, to introduce you to the retail strategy and the roadmap we'll be focused on as we move forward. Seth.

Seth A. Moore *Overstock.com, Inc.* - Chief Strategy Officer

Absolutely. So on Slide 23, I'll start by saying the past few quarters we've shared with you the progress in our financial recovery but now we're at a point where we can share with you a deeper explanation of the strategy underlying our recovery.

Let's start the discussion with some foundational market analysis. The home furnishings industry is a \$301 billion, highly fragmented market. As you can see here, the top five players only make up about 35% of the market, with 65% of the market residing with retailers with a 2% or less market share.

On Slide 24 you'll see that of that \$301 billion market, only 19% of it is online which as you can see on the following slide, represents significant under-penetration relative to many other product categories.

Taken together, this represents a significant opportunity for us. The market is fragmented primarily because the kind of home shopping experiences that delight one customer may actively turn away other customers, making it difficult to consolidate wallet share across a broad range of customers.

So on Slide 27 you'll see, in recognition of that fact we've done some significant segmentation work across the home shopping market through various behavioral, attitudinal and consumption variables, and broke the market into six specific consumer segments. We're targeting two of them through a differentiated and narrowed focus on their shopping preferences. These two segments combine to make up about 40% of the home goods market -- that's roughly \$120 billion -- and already have an affinity for the experience that Overstock delivers.

On the next slide you'll see that the attributes that make Overstock a great fit for these customers are their love of deal hunting on high-quality items and the fact that they seek a balance in function, style, ease and price. They both want beautiful, comfortable homes, but they're also not the type of people who view shopping for those items in their homes as a form of recreation.

The friction these customers experience in finding the products they like, as well as the deals they crave, is what creates the dissatisfaction with incumbents in the home furnishings industry.

To satisfy them, you'll see on the next slide that we're expanding our moat around three core competencies that they already appreciate about Overstock. These competencies are a more personalized relationship with the customers, high-value promotional pricing on quality home goods that helps them feel smart about their purchases, and a shopping experience that's easy and frictionless to remove the risk required in buying other home furnishings retailers. We have a number of metrics that we look at in order to benchmark our progress against these three competencies that I want to walk you through.

First, as you can see here, we're making progress year-over-year and improving our 28-day repeat rate through our personalization efforts. We have significantly also increased our private label penetration as a percentage of our sales. This private label program gives the customer value cues both in terms of quality and in terms of price on our offerings, and helps differentiate the experience for the customer.

Patrick M. Byrne *Overstock.com, Inc.* - Founder & CEO, Director

I'll point out on that, we once did have a thriving private label business over a decade ago, and sort of stopped it at one point. We've just really started this again. And for it to already have hopped to 12%, it's been less than a year. I would imagine you will see this accelerate, continue to accelerate, Dave, do you want to estimate where you think this goes to?

David J. Nielsen *Overstock.com, Inc.* - President of Overstock Retail

We'd like to see this [become] (added by company after the call) 50% to 60%, maybe even higher.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Yes.

David J. Nielsen *Overstock.com, Inc. - President of Overstock Retail*

50% to 60% of our revenue.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Right. And I think that you'll see it by a year from now at 30% or something, comfortably.

David J. Nielsen *Overstock.com, Inc. - President of Overstock Retail*

Absolutely.

Seth A. Moore *Overstock.com, Inc. - Chief Strategy Officer*

On Slide 31, you'll see that our means for generating smart value for the customer come primarily through our cost reduction efforts. As was reported in a recent article in Search Engine Land, in June we made another significant breakthrough in the recovery of our SEO rankings. You can see that while we've made over 100% improvement year-over-year, we still have lots of opportunities to grow just to get back to where we were in 2017. We believe this will be a significant growth engine for us going forward and helps us control our marketing expenses and offer more competitive pricing.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

That graph, I'm going to footnote that. That graph in the upper left really tells the story of what happened in the last two years. We really thought we were skimming along two years ago. That collapse in our SEO told in one graph is that graph. And it is because of J.P. Knab that we survived that. I don't think there are other companies that have had collapses like that. We had -- and March of 2017 was itself a little spike. We were running more like 400,000 of keywords we care about showing up in the top three searches in Google. That fell to 50,000. Other companies have had something like that happen and they all went out of business. I can't think of anyone who survived. Because of J.P. Knab who's here with us today, and you'll be hearing from, we did survive that and as you can see we've gone from 50,000 back to 150,000. And you know, that's significant progress. It's going to be June, we had a very nice June. And Google's new algorithm rolled out in the first week of June. And it tells us we've been doing the right things, and focusing on the right things in our SEO efforts.

David J. Nielsen *Overstock.com, Inc. - President of Overstock Retail*

Absolutely.

Seth A. Moore *Overstock.com, Inc. - Chief Strategy Officer*

We also made progress from a logistics standpoint as we continued the multi-year trend of driving down returns and returns cost as well as realizing freight savings from rebalancing carrier lanes. And all of that together adds up to the improvement you see in our perceived price advantage versus other online retailers. We expect these trends to continue and have initiatives around continuing to drive these costs out of our ecosystem.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Can I have one more -- this one on the lower left, and Seth was a very key part of this. The net returns cost which is a measure of the true net economic cost to us of our returns, which is a combination of what percentage of products get returned, what percentage of them can be resold versus liquidated, the costs of all the handling and sorting, and all that stuff. We come up with a true number. We have, over time -- I mean, here you see it has dropped 50%. That is real nickel-and-dime management, and that just -- that alone -- if you knew how many of those, there were things like that in this company that created a moat. That makes it, in my view, something of value, when I look at these other companies that are much, much larger brick-and-mortar companies. And the value we could say, theoretically bring, by bringing that kind of a skill, is sort of worth more than the current trading value of our company. Go ahead.



Seth A. Moore *Overstock.com, Inc. - Chief Strategy Officer*

Finally, on this last slide, I think you'll see that we also continue to make significant progress in the improvement of our website experience. We've reduced the page load times, both of our mobile and desktop websites, and we've also seen significant improvement in the percentage of our products on which we can message free two-day delivery. A number we expect to continue to improve in the coming quarters, as our fulfillment services offerings continue to expand. These improvements taken together are driving meaningful improvement to our Net Promoter Score at the point of sale, which we believe is a good representation of the quality of our shopping experience.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

At an 82 by the way, an 82 NPS at point of sale is astronomical.

Seth A. Moore *Overstock.com, Inc. - Chief Strategy Officer*

Yes.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

I mean, if you went back 20 years ago there were not enterprises of any kind that got something like that.

Seth A. Moore *Overstock.com, Inc. - Chief Strategy Officer*

Absolutely, and we think that's really key with these customer segments, that we drive the friction out of that experience and make them comfortable shopping with us in a way that they just aren't, particularly in the legacy brick and mortar environment.

So with that, I'll go ahead and kick it back to Dave to discuss the financial results of our completed initiatives as well as some of our upcoming roadmap.

David J. Nielsen *Overstock.com, Inc. - President of Overstock Retail*

Thank you, Seth. Turning to Slide 33, if you would, we've had a focused and productive quarter. The key initiative and product now live is our new site monetization AdTech and it's really spinning up nicely and creating some interest with our partners. Adoption is happening even quicker than we expected. We've also completed all of our freight contracts, as Seth just mentioned, and rebalanced our freight lanes, which in turn, is providing improved margins. We've continued to expand our reach of machine learning throughout our organization and estimate we've completed approximately 40% of the needed integrations.

As Seth just mentioned, we've spent a significant amount of energy focusing on our target audience, defining our retail strategy and rolling it out to the entire team.

Moving to Slide 34, going forward, we'll be focusing our energies around reporting our progress on the three core competencies that our customers already appreciate about Overstock. First, in building a personal relationship with each customer, we'll focus on increasing our volume of 3-D content while expanding, as Patrick mentioned, our private label program and fully integrating our CRM platform into all of our customer-facing products by the end of 2020. Next, we'll create a smart value for our customers by continuing to reduce the friction created by returns and complete the integration of our multi-carrier freight lane implementation. And finally, we'll deliver an easy and seamless shopping journey by continuing to expand our number of two-day shipping products and accelerating our growth in our award-winning mobile apps.

As we move to Slide 35, you'll see year-over-year improvement in our gross margin coming in at 19.7% which is an 80-basis-point improvement over Q2 of 2018. The primary driver behind this improvement is the rebalancing of our freight lanes by adding additional carriers to our freight mix. We're in the initial stages of this multi-carrier strategy and we'll continue to see improvement on our gross margins as we build out our freight and logistics carriers and footprint.

As I shared at the beginning of the retail segment, we're thrilled to deliver our first positive adjusted EBITDA quarter since Q2 of 2017. Note that this number is inclusive of our allocated shared services cost of 70%.

Finally, note our year-over-year decrease in revenue of 23%. This is due to our pulling back on the marketing afterburners from a year ago. We anticipate as we move into November and December of 2019 and on to 2020, we'll deliver sustained profitable growth as we focus on our strategy.

On Slide 36, as we continue through this transition you can see that we improve our retail expense line and are outlooking to continue that improvement throughout 2019 as we have additional contracts and costs that we're eliminating as we move forward throughout the year. We anticipate our contribution dollars will continue to improve throughout the second half of 2019 as we execute on several of our company initiatives, primarily driven by two that I had previously mentioned, expanded site monetization via new ad tech and the rebalancing of our freight contracts.

Moving to Slide 37, I'll turn it over to Patrick for a moment.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Great, thank you. So on the left you see the graph Dave has just shown you, and on the right you see the competition, and what I like to call is their march to profitability. I mean, we did not talk about the competition for years. We did not talk -- and of course, I'm speaking of Wayfair. It seems to me at some point, silly of me, and like, there's an elephant in the room that's not being addressed.

I view Wayfair as a business that is so similar to our own, in more ways than you would probably even guess, and them having chosen to do this which looks odd to me, but I know I'm old fashioned -- having your expense structure grow like that. And I know there are people who believe in that. But that is such a central fact I think of the fact of the online business, that it means that it changes our strategy completely.

But our strategy can become, instead of trying to bang our head against that what's going on on the right, is just to focus on the most exquisite jewel of a tech platform. And competing on that basis. And we can have a multi-billion-dollar company making tens of millions of dollars a year again and we're not going to try to measure ourselves against growing 40% but losing \$180 million a quarter. So that's -- as clear an enunciation of our future strategy as we can make.

David J. Nielsen *Overstock.com, Inc. - President of Overstock Retail*

And might I add to that, I'm very pleased that we're on the left-side chart where we sit today.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Yes.

David J. Nielsen *Overstock.com, Inc. - President of Overstock Retail*

We're on a great trajectory.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Nicely done. Nicely managed, Dave.

David J. Nielsen *Overstock.com, Inc. - President of Overstock Retail*

Thank you. It's a whole team.

As we turn to Slide 38, let me point out that our second quarter retail contribution was equal to our first quarter coming in at \$39 million, a \$42 million improvement over second quarter of 2018. Typically, our second quarter is our softest quarter of the year which speaks to the continued recovery and positive trajectory.

And finally, as we turn to Slide 39, you'll see that our current outlook is to finish the year at \$167 million [of annual retail contribution] (added by company after the call). This equates to an adjusted EBITDA of \$17.5 million for the year, and it is an increase of \$2.5 million in

adjusted EBITDA from our previous Q1 estimate of \$15 million.

We're very bullish about our retail business. We like the trajectory we're on. And with that, Patrick, I'll turn it back to you.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Thank you, Dave. We will walk through each of these again.

What we are, is we're in the business of technological disruption. We are doing it now with capital markets, tZERO. I mean, that's really the main event. We think that tZERO is -- I'm not going to try to convince shareholders about whether to believe in the blockchain revolution or not. You do your own homework on that. But if you believe in it, you probably understand why security tokens are the killer app of that revolution. But we have a multi-year head start in building the best trading system for security tokens out there. And at this point, given just the announcements in the last few weeks, we have crossed some lines and put a lot of distance between us and the competitors.

And okay, with that, let's move on to the questions.

QUESTIONS AND ANSWERS

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

We have questions for tZERO, Medici, Retail, and Other. tZERO -- Saum, why don't we start here. The digital dividend decision was brilliant, says one follower. In simple terms, what's it mean to the average Overstock investor? How, if at all, is it beneficial to tZERO? For example, it seems to us that it should drive trading volume on the ATS, which would be favorable to tZERO, says this shareholder. Saum.

Saum Noursalehi *tZERO Group, Inc. - CEO of tZERO*

Yes. It's obviously a benefit to investors in that we're rewarding them with access to preferred share dividends, for every 10 share owned on September 23, the investor gets one digital share of Overstock [digital shares] (added by company after the call) which are all tradeable on the tZERO ATS. How is this beneficial to tZERO? We talked about it earlier, but it brings 40,000 to 50,000 customers to the platform. Getting that initial adoption is key, as well as bringing other broker-dealers to the table, that we wanted to plug into the security token ecosystem.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Okay. Saum, you wrote an excellent letter to token holders. When should token holders expect the next?

Saum Noursalehi *tZERO Group, Inc. - CEO of tZERO*

We're thinking on a quarterly basis, but if they're helpful we can do them more frequently, perhaps even monthly.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Okay. How is the digital crypto-wallet app performing? How many downloads and assets and such?

Saum Noursalehi *tZERO Group, Inc. - CEO of tZERO*

We've had thousands of downloads, and I think we have about \$100,000 in assets right now, and that's with no marketing. We plan to start doing some marketing in the coming weeks, so in the next one to two weeks you'll see us start to market this through kind of on the digital side, on Google and on Facebook.

Seth A. Moore *Overstock.com, Inc. - Chief Strategy Officer*

And I would add to that, that there is a ramp-up period to getting assets in based on KYC laws and everything. To make sure that people aren't hiding money in those accounts, so that will continue to grow.

Saum Noursalehi *tZERO Group, Inc. - CEO of tZERO*

Yes.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Saum, you've made a number of significant additions to management. Who are the new people, what are the roles, and when do you think they will result in actual increased revenue?

Saum Noursalehi *tZERO Group, Inc. - CEO of tZERO*

Yes. We talked about Brooke who's Head of Issuance. She is over business development, so there's a very direct line to revenues and getting new tokens into the platform. She's already improving our processes there, and helping the areas of focus in our prospecting. I expect in the next quarter that she'll help drive revenues to the business. And then we talked about Mike Mougias and Alexandra, who is Head of Communications. I think you're already seeing them helping, more in an indirect way, but you've seen communication kind of go up in volume coming from tZERO. Not only is that due to execution, but they've been great in getting the word out. I think they're actually contributing to the increases that you've seen in our token price.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

In general, Saum, somebody asks, investors we have spoken to have referred to your products as taking a lot longer than expected to generate revenue. Would you agree with that assertion, why or why not?

Saum Noursalehi *tZERO Group, Inc. - CEO of tZERO*

I do not agree with that. This is a completely new alternative to how capital markets work today and that takes time. We're starting to see revenues come in from the blockchain side of the business, but I mean, we just got the platform live at the end of January. We're seeing steady increases in revenues from the ATS and crypto and we expect that to continue.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

May I add that I think that's an absurd question. This guy is inventing a parallel universe based in blockchain to our national capital market, and better than it. I think it's an absurd assertion.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Okay. What day will the tZERO token be open for trading on the ATS, Saum, for all investors, not just accredited.

Saum Noursalehi *tZERO Group, Inc. - CEO of tZERO*

We're targeting August 12.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Great. Okay. Next set of questions. Any update on timing for Boston Exchange JV and SEC regulatory approval?

Saum Noursalehi *tZERO Group, Inc. - CEO of tZERO*

It's hard to estimate but we're shooting for end of the year this year or early 2020.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Any update on your pipeline and new potential security offerings to trade on tZERO?

Saum Noursalehi *tZERO Group, Inc. - CEO of tZERO*

Nothing we want to publicly share but we have a pipeline of about 200 companies, and we're focused on the top 5% of that, so 10 companies that our issuance team is working with.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

We have another, I know that there's some very interesting ones in the pipeline.

Saum Noursalehi *tZERO Group, Inc. - CEO of tZERO*

Yes.



Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

tZERO will likely need funding soon. What is the plan for this?

Saum Noursalehi *tZERO Group, Inc. - CEO of tZERO*

I'm actually not terribly worried about this. Overstock and Medici are committed to funding tZERO. Our team would actually like to execute a bit more and start generating more meaningful revenues before we raise capital. All that said, we are working to raise money and Jonathan is working closely with Makara as he mentioned.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Jonathan.

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

Yes, as I mentioned in the call, Makara has taken the proposal to its investment committee, or is taking it to its investment committee. We'll move forward. But absent that, Medici and Overstock continue to see tZERO as the crown jewel, something that will be funded by us as long as needed.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Right. Next, when will tZERO get a New York crypto license and what steps are being taken?

Saum Noursalehi *tZERO Group, Inc. - CEO of tZERO*

The New York license is challenging to get. We are working on it. We're hopeful we'll get it in the next six months.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Okay. What is the marketing strategy for the tZERO app? Overstock customers don't seem like the likely target market.

Saum Noursalehi *tZERO Group, Inc. - CEO of tZERO*

Yes. The traditional customers for crypto, and we had an analysis done on this, are high-income men between the age of 30 and 40. But we think this market is evolving as Bitcoin more and more is understood. We want to test audiences and see where it resonates. Overstock does have some customers that we think have an overlap, so we're going to kind of test broadly and identify the groups where it really resonates.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Thank you. Thank you, Saum. Excellent work on tZERO and again, where people may not understand, where there may be hidden value is the distance Saum has with security tokens. If you believe in that field, what tZERO has done and has built in the last 15 months and has been bringing to market in the recent weeks I think puts us way ahead of the competition. Next, let's go to Medici, Jonathan. You want to address these questions?

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

Sure.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Okay. Facebook, this also from Tom Forte from D.A. Davidson. Facebook seems to be interested in creating a cryptocurrency to us, to be an enormous validation of your multi-year investment spending on blockchain. Would you agree with that?

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

Yes, I would. I think anytime household names get involved in anything blockchain it's good for what we're doing at Medici Ventures. So whether it's Facebook coming out with its Libra cryptocurrency or Walmart which recently received a patent for its own private cryptocurrency, all these things seem to normalize and mainstream something that we've understood for years now. And I do think it is a validation of what we're working on.



Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Are there opportunities for you, Tom asks, for you to work with Facebook to advance that company's efforts?

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

Again, yes. We have had some initial discussions, even before Libra was announced by Facebook and we'll continue to advance those discussions, both at the Medici level and sometimes at the keiretsu company level. We know that some of our companies have reached out and are trying to work with Facebook on this area.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Why not do STOs, Security Token Offerings, for more or all of your investments such as Medici Land Governance, Bitt and Voatz?

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

So that's a great question, Tom. Many of the keiretsu companies are interested in doing security token offerings on the tZERO platform. But I would say as with all equity raises, the timing has to be right for the specific company and just because it hasn't happened already, don't assume it won't.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Let me footnote that, if I may. I love that idea. And you've named companies that I think would be perfect. Well, they need a few more months or a few more quarters to get some revenue but they would be perfect for Reg A or Reg A Plus or even small Reg A offerings. And I would like tZERO to be -- that's a market that I think tZERO should be in. It'd be great for America if we could tokenize Reg A and Reg A Plus offerings. So my hope is that you, as this keiretsu emerges one of the things that will happen is you will see some of these portfolio companies doing small offerings on tZERO and in the process, will figure out the right way to do Reg offerings as security tokens. So one hand washes the other.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Okay. Going on to Allen Klee of Maxim. Could you do an update on Medici Land Governance, the status of the capital of Zambia potential contract and what it could represent dollar-wise?

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

So we talked about this in the presentation. Zambia is a big deal. It's gone from 50,000-title pilot program to much larger paid program. We're not talking about the dollars here, but as Patrick frequently says, MLG is among one of the portfolio companies where big numbers are bandied around.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Yes. The three companies where you hear the word trillions is when you talk about tZERO, Medici Land Governance, and Bitt. The addressable markets there use the word trillions a lot. Okay.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

What are the opportunities in voting, Jonathan?

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

Well, as I talked about in the presentation, I think the way the voting is going to expand is an alternative for overseas voters, then disabled voters, then absentee voters, and then all voters. This is going to be iterative expansion but it's an expansion process that makes sense.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

And that's really what -- that's addressing U.S. voting. People, countries that are talking to us about Jonathan's GaaS product, Government-as-a-Service, one of the things they bring up or one of the first layers that they want -- and I'm thinking of one country in particular -- is that we would get voting in that country on the Voatz app.

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

So I would say I saw an email just this morning from a premier of a country that we're talking to, to his voting minister, copying me and the CEO of Voatz, asking the premier to get on it. This is something we want to do.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

The premier asking the minister.

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

Ye, the minister to get on it, this is something we want to do quickly. So I think in the United States, the process is as I've described. I think in countries elsewhere, the process could jump to the fourth step immediately.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Okay. Overall how do you think about how much you're willing to post as losses in Medici, Jonathan. If you get wins in Medici, does this mean the overall segment losses will go down or will there just be more spending on other investments?

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

So let me begin by saying Medici Ventures is an incubator, and it will take time for each of the keiretsu companies to get ramped up. We're more pleased with how quickly some are ramping up than others, but that, of course, is to be expected. As tZERO and MLG ramp up to profitability, Medici Venture losses will be significantly reduced. We'd like to be operating at a place in the next year or so where retail profits are more than able to fund Medici Ventures operating outlets. As I mentioned during the call we're slowing down our search for companies to add to our keiretsu.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Well said. Thank you, Jonathan, on Medici. And beautiful work, both of you fellas, and tZERO and taking a -- pulling Medici together as an organization. Turning now to retail with some questions. I'm going to farm these out to different people. Dave, to what specifically do you attribute the turnaround in your retail business including a return to free cash flow generation? What gives you confidence that this is sustainable?

David J. Nielsen *Overstock.com, Inc. - President of Overstock Retail*

Okay. Thank you, Tom. Patrick, as you know we've made some tough decisions and rightsized our expense structure. We also have backed off of the aggressive afterburner marketing spend that you've mentioned on a few of the previous calls. We've returned to our strategy of sustainable, profitable growth. So that X-chart that I talked about with expenses and contributions being put in line, that's been some tough decisions, and returning to our strategy of profitable growth, sustainable profitable growth; I emphasize that. Regarding the confidence in sustainability, Seth discussed earlier, this \$301 billion home furnishings market is fragmented and the largest retailer is only 11%, with 60%-plus of the market share being owned by people with 2% or less. By narrowing our focus and our innovation and focusing on our key customer segments, increasing the use of AI and machine learning across the enterprise, improving our logistics and operations effectiveness and staying disciplined to our expenses, we see no reason we can't say it's sustainable.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Thank you. Seth, where do things stand on our SEO efforts, and this shareholder heard Google made changes to its algorithm this year. And have that once again hurt some retailers?

Seth A. Moore *Overstock.com, Inc. - Chief Strategy Officer*

Yes. They did make some big updates in June. But as we showed you on the chart earlier, I think in short, it's been a fairly productive month for us. I think we've seen more value from our SEO program. We're now up more than 100% year-over-year in terms of our rankings in the top 3, and saw significant uptick in June, and we're really pleased at the improvements we're making to our site experience are being recognized and rewarded by Google.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Thank you. Next question, sounds like you have an Etsy executive involved in retail efforts. What is the exec doing, as it looks like Etsy is currently doing well. Dave, why don't you take that?

David J. Nielsen *Overstock.com, Inc. - President of Overstock Retail*

Thank you, yes. We do. We're thrilled to have Kamelia Aryafar here with us, with a Ph.D. in machine learning and data science. She's our Chief Algorithms Officer. She's leading the teams that are implementing AI, machine learning and real-time data access, search rank and personalization across the retail enterprise, just to name a couple things she's working on. We believe, as Seth talked about our customer strategy, we believe that this data-driven personalized approach that Kamelia can bring to the table, we can take Overstock to new levels.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Yes. And I think we even said in our last quarterly call that we had probably taken machine learning to about 25% of where we planned on taking it. We're up to about 40% now, hope to get to 70% by the end of the year, I think you said earlier on the call, to the end of next year to really do 100%.

David J. Nielsen *Overstock.com, Inc. - President of Overstock Retail*

To get to 100%.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

That's Kamelia, that's the answer, what she has brought us, as well as really shrewd business savviness.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

So speaking of Kamelia, I've got a question for you. Club O. You announced some changes to the effort after quarter-end such as price matching. How should investors think about those efforts impacting Club O, Kamelia?

Kamelia Aryafar *Overstock.com., Inc - Chief Algorithms Officer*

Thanks, Patrick. We are continually seeking new benefits that will reward our current loyal members, and drive additional new customers to become loyal. We expect these new benefits to help improve our overall signup and retention rate. Price match guarantee ensures that our Club O members have a fearless shopping experience with Overstock. We believe benefits like this will encourage our members to engage with Overstock more frequently and more confidently.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Thank you. Welcome. This is your first time speaking on an earnings call. Welcome. Okay. Next, Prime Day. This is for J.P. Were your sales helped or hurt by Amazon Prime's two-day sales event? J.P. Knab?

John Paul Knab *Overstock.com, Inc. - Chief Marketing Officer*

Well, Patrick, I first want to thank you for your kind words earlier about the seeing through the SEO slide. I think a team's nature is often times seen the way we rally to a challenge. And the fact that we're reporting positive adjusted EBITDA when our most lucrative channel is only partially recovered with potential upside, the testament was, what you've done the last year. On Prime Day, we saw positive impact. Seth talked to the fact that our prices have an amazing perception of how good they are, because they are great. And so when a competitor creates a lot of traffic and pulls it online, we see much of that traffic come over to Overstock, see our great home prices and purchase here. So we tend to get positive impact when a competitor does a major event.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Thank you, well said. Dave, talk to us about logistics. What percent of merchandise do you sell and deliver to customers on a two-day basis and how has that changed over time?

David J. Nielsen *Overstock.com, Inc. - President of Overstock Retail*

Thank you, Patrick. As Seth showed on a previous slide, we've grown our deliveries to 22% within two days. We expect that to grow. We anticipate over the next two years to get that to roughly 60% of our business, and we have many initiatives with our supplier oasis fulfillment services. Our SOFS program, as you'll hear us frequently refer to that. Technology allows our partners to put their products pre-positioned in warehouses closer to the customers and we are undergoing that initiative as we speak.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

I'm going to footnote that. We built, some years ago, if you go back in the earnings calls transcripts you will hear, you will see our discussions of SOFS. We spent \$30 million or more building an agile, lean supply chain that would let us manage inventory in 1,000 warehouses. That is a key part of increasing the percentage of SKUs that show on a two-day basis. We know what that does for us and how much it increases the likelihood of a product selling by being able to say, we will deliver this within two days to you. Taking that number from 22% to 60% over a couple years, just that alone, taking me not in -- that itself will drive an acceptable -- not an overwhelming, but a very acceptable sales rate and loan. Just that technological innovation. And so, okay. Moving on.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Dave, to what extent is your legacy home e-commerce business affected by tariffs including the latest round that was announced, 10% on everything else made in China?

David J. Nielsen *Overstock.com, Inc. - President of Overstock Retail*

Yes. The most recent round of tariffs, the announcement last week of the 10%, was primarily on goods of clothing, toys and footwear. Non-material, really, to our business at this point in home furnishings. However, earlier in the year, back in May, we did reduce our outlook, our bottom line by about \$1 million because of the tariff raise from the 10% to 25% on those goods that hit directly in the heart of home furnishings.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Next question is for me. What do I think of the current trade war, and what do I view on the endgame.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

First of all, practically every economist for 200 years has believed in free trade. I'm going to shock people by -- well, certainly we'd be doctoring that as informing the decisions on this in Washington, are really not about economics. They're about national security. There's a book called The Hundred Year Marathon by Michael Pillsbury. That is really the doctrine that is informing this administration. He has a protege, so to speak, named Peter Navarro who is the trade guy. But if you really want to understand the thinking that is informing this all, just read Michael Pillsbury, the Hundred Year Marathon. So they see this in terms of national security. The thesis is that China in 1929 set out on a 100-year marathon to take the U.S. down, and they're basically 67 years into it. They were when the book was written, but they're about 20 years ahead of schedule. That's the thesis of the book, and I think that's really what's informing the hardline trade policy. What do I think? I think that the right solution is something Buffett put out 20 years ago that I wish people paid more attention to, because he saw free trade as imposing a cost. It's a way for us to currently live better, and get Nike sneakers -- well, I shouldn't say brands. But to get sneakers and such that we trade little pieces of paper for, and it's our children and grandchildren who have to honor those little pieces of paper. So it was a way of us living higher on the hog and taking things away from our grandchildren is what he -- and so anyway, I wish people would look up, hit the proposal he made 20 years ago.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Okay, next question. We'll give this to you, Seth. eBay has indicated that the new online sales tax laws following the Supreme Court's ruling last year have hurt U.S. sales by more than 100 bps. Other e-commerce companies such as Etsy have referred to it as a headwind. What impact is it having on our e-commerce business?

Seth A. Moore *Overstock.com, Inc. - Chief Strategy Officer*

Yes. So I would say in terms of our e-commerce business there are benefits and detriments from the change in policy. The detriments are clear, collecting sales tax in every state has its costs. The benefit is, we did not operate physically in a number of states because of that policy and so we've gained access to those states. We've opened some additional programs that have largely offset, I think, the cost to us.

And that was really Overstock's push all along is we wanted a level playing field with a uniform set of standards that was easy to comply with in terms of sales tax. Some of the platforms you mentioned that don't really operate as retailers but rather as platforms, already operated in a number of those states, but their sellers did not. So I think our situation is somewhat differentiated from eBay and Etsy.

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

Patrick, may I comment on this?

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Sure. Please do.

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

So because Overstock was the tip of the spear in this fight we were, I think, more prepared and better positioned for the Supreme Court's ruling on Wayfair, and we were able to act quickly and nimbly so that we really didn't slip a stitch at all. And while this may have hurt and still be hurting other competitors, not so for us.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Right. Okay. Two more questions. Thank you, Jonathan. Two more questions in the other category. Why don't you stay around and answer these, Jonathan. One of them is that the SEC investigation has been dragging on and acts as a cloud hovering over the company. Have you asked the SEC to provide guidance as to when this may end? Jonathan, who is a recovering attorney, used to be general counsel before you traded off going to --

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

Thank you for that introduction, I'll be pleased to answer the question. Yes, we regularly meet with the SEC and I have personally met with the SEC Enforcement Team. The answer to your question is yes, but the SEC, as good as it is in engaging in regular dialogue with us, will not put a shot clock on itself. So, we're working to get an answer. We're in regular dialogue. But the SEC won't say when.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

We did announce this latest series of interactions with the SEC, last March 1st. I will point out that we complied with an enormous document request and I think we spent \$10 million to \$13 million or something. So the shareholders can know that we understand that we want to accelerate this process and we have done our part and have been extraordinarily responsive in everything that they have asked for. Glen, General Counsel, would you --

Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

Let me also just comment on that, Patrick. The fact that we are in regular weekly dialogue with the SEC is, if not unprecedented, highly unusual. So, our cooperation with the SEC is appreciated, and I think moving this faster than an even slower process would be. Glen?

Glen Nickle *Overstock.com, Inc. - General Counsel*

Yes. I would echo Jonathan's comments that we have been as cooperative as possible during this, and continue to work with the SEC on this matter.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

I think the SEC should put -- we should give them an office within tZERO. They have spent so much of the last two years there, three years there. We've had the six-month investigation, the year investigation, well investigations aren't the right word but okay.

Saum Noursalehi *tZERO Group, Inc. - CEO of tZERO*

Yes. That's the next step.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Okay. That would be the next. But we are being extremely cooperative. Last question. I'm obviously concerned about the share price. I don't think it reflects the value of the underlying assets. What is the management or board planning to do about this? Jonathan.



Jonathan E. Johnson *Overstock.com, Inc. - President of Medici Ventures, Director & Chairman of tZERO*

So, management is focused on running the business the best it can for long-term value, like we always are. I would say this: if shareholders are concerned about the share price and it being subject to manipulation -- and I will note I've seen that we've again shown up, Overstock has again shown up from time to time on the regulation SHO Securities Threshold list -- those shareholders should contact the SEC and ask the SEC what it's doing to protect them against market manipulation.

Patrick M. Byrne *Overstock.com, Inc. - Founder & CEO, Director*

Jonathan, thank you for that answer. I would add to that, that if you were contacting the SEC, shareholders, let them know how much you like the dividend idea and how much you look forward to receiving that dividend.

So with that said, we have a tremendous network of ecosystem of companies emerging here. If you go back through the transcript of this call you'll note all these places that these companies are starting to cooperate with each other and help each other. We think we have crossed a strategically important line so that we're back to where the retail business we think in over the future, its cash generation should support the blockchain businesses as well as return to being one of the few profitable, actually profitable, e-commerce companies out on the internet. And we're just going to keep on focusing on developing that, the retail company has this exquisite jewel of a tech platform that's its future. And meanwhile the blockchain companies are you know, at the very leading edge of the biggest ideas in the blockchain revolution.

So everyone, thanks for joining. Talk to you in a few months.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a wonderful day.

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