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# EDITED TRANSCRIPT

Q1 2019 Overstock.com Inc Earnings Call

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## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the Q1 2019 Overstock.com, Inc. Earnings Conference Call. (Operator Instructions) As a reminder, this conference call may be recorded.

At this time, I'd like to turn the call over to your host, Greg Iverson, Chief Financial Officer. Please go ahead.

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

Good morning and welcome to our First Quarter 2019 Earnings Conference Call. Joining me today are Dr. Patrick Byrne, Founder, CEO and President; Saum Noursalehi, CEO of tZERO; Jonathan Johnson, President of Medici Ventures; Seth Moore, Chief Strategy Officer; and J.P. Knab, Chief Marketing Officer.

Let me remind you that the following discussion and our responses to your questions reflect management's view as of today, May 9, 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.

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

Thank you, Greg. This is our agenda for today, a nice tight agenda. We have lots of developments to be discussing with you. So let's get to it. Jonathan?

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

Okay. Thank you, Patrick. Slide 4. Our shareholders will remember that on our last earnings call, Patrick explained how Medici's business initiatives are developing and advancing a blockchain tech stack for society with a new focus on government as a service model.

Next slide please. Medici is creating or fostering a set of products and solutions that leverage the transparency and immutability of blockchain technology. These products do and will generate efficiencies and increase security and control in the 6 areas listed on this slide that are part of Patrick's vision.

Next slide please. To execute this vision, Medici Ventures has put together a keiretsu, or network of companies, that can work together in performing different functions. Sometimes, we have found companies to bring into the pool, other times, we started companies from scratch. What's important is that each company is focused on getting blockchain products into production.

Next slide please. During today's call, we will highlight what 3 of these companies are doing, not just talking about doing, but actually doing in the blockchain space. As we have in the past, we'll start with tZERO. Saum.



**Saum Noursalehi *Overstock.com, Inc. - CEO of tZERO***

Thank you, Jonathan. tZERO is executing and gaining momentum. We have some nice wins to discuss and more coming in the months ahead.

Next slide. On our last call, we presented the next critical milestones for tZERO. I'm going to provide a detailed update on each of these items. Next slide. Our first milestone was to onboard quality issuers and we just signed an LOI with Emaar, the developer of Dubai's iconic Burj Khalifa, and the Dubai Mall for a very substantial tokenization project.

1B. By the end of the month, our trading platform will support trading of third party tokens from the issuance platform known as Securitize, which is really the leading issuance platform.

And 1C. We are in the process of migrating tokenized share of Overstock preferred shares, OSTKP, onto tZERO's trading platform. Trading for these shares will go live in June. Patrick, did you want to add anything on that?

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

No, that sounds great.

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**Saum Noursalehi *Overstock.com, Inc. - CEO of tZERO***

Next slide. Expand token investor base and boost liquidity. 2A. We signed a contract with broker-dealer ETC to allow their clients to trade our security tokens. 2B. By the end of the month, tZERO will file to become our own retail broker-dealer. And 2C, we are in discussions with other BDs interested in trading our assets. And this was one of the big benefits of the acquisition of SpeedRoute, which is that we have relationships with 150 broker-dealers and many of them are already expressing interest in trading security tokens.

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

If a broker-dealer is already integrated into SpeedRoute, how much work is it to bring up our security token ecosystem?

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**Saum Noursalehi *Overstock.com, Inc. - CEO of tZERO***

It's within weeks we can bring up an additional broker-dealer, maybe even a couple weeks. Now, that does need regulatory sign off, but the technology makes it very easy to do that.

Next slide. International, which is our software as a service play. We want to replicate what we've done in the U.S. with our joint venture with BOX, internationally. What we've done, 3A, is get our technology ready to offer as a service to other exchanges. So all that technology work is done, and we can offer it to exchanges around the world. 3B. We're in discussions with several exchanges in Europe, Asia, and in Canada and those discussions are ongoing.

Next slide. On this slide, you see mockups of our crypto-trading app, which is on track for a June launch. Initially, this will trade just Bitcoin and Ethereum.

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

And maybe Raven.

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**Saum Noursalehi *Overstock.com, Inc. - CEO of tZERO***

And potentially something else, Ravencoin. But down the road, this app is really going to evolve and be the foundation of our brokerage trading system, which will include both digital and non-digital assets. While it will start with crypto, it's going to evolve into something much bigger.

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

So in that respect, it is something like Robin Hood, only better in a different business model.

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**Saum Noursalehi *Overstock.com, Inc. - CEO of tZERO***

Although with security tokens and digital assets. Next slide. Other initiatives, 5A, the next phase of our digital locate receipt product is on track for August and the team has been meeting and building out a nice roadmap and we're looking forward to that launch.

5B, we're targeting an end of year launch for the BSTX, the Boston Security Token Exchange, which will be the first national exchange for trading security tokens.

Next slide. Lastly, we'd like to show you a Gantt Chart of our updated product roadmap. Note that we recently completed the issuance platform tokenization technology, which is circled in the dotted blue lines. Again, this technology will be used to create token contracts on the blockchain for issuers using our token standards.

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

I love this. I'll just drop in here and mention I know that sometimes people ask us and tell me that the rumors, tZERO, they don't know if they're actually getting anything done and I find that hilarious because I've never seen a company that puts out its product development roadmap to you in a Gantt chart and Saum has been hitting a thousand runways for the last year and has been knocking these down just exactly on time.

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**Saum Noursalehi *Overstock.com, Inc. - CEO of tZERO***

With that, I'm going to turn it back to Jonathan to talk about the other Medici companies.

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

Thanks, Saum. As our shareholders can see, tZERO has made and is making significant progress in just a few weeks since we last talked to you. tZERO is proving its great potential to use blockchain to revolutionize capital markets.

Many of the Medici Venture Companies have this same type of revolutionary potential. Most have made progress over the last quarter but because of limited time, I will now briefly focus on 2 of those companies, GrainChain and Voatz.

GrainChain is a Texas-based company with a blockchain platform for the agricultural business. It's transforming the way in which farmers, buyers, and grain elevators operate. GrainChain's platform ensures prompt payment to suppliers and farmers.,And it facilitates the immediate ability of tradable commodities to buyers. Through certification and accountability, GrainChain's products mitigate fraud and corruption, and streamline procedures for everyone involved in the market.

Now, historically, the process for recording grain and its movement throughout the supply chain has been cumbersome and inefficient, often with lots of mistakes along the way. People would need to record data by hand, such as the grain's weight, its condition, et cetera. Perhaps worst of all, approximately 30% of the world's grain rots, in part because of poor processes.

GrainChain recently announced that the Mexican state of Tamaulipas, the largest producer of sorghum in Mexico, now supports the incorporation of GrainChain's blockchain technology for the tracking of grain. This Mexican state will utilize GrainChain's blockchain and Internet of Things software to bring clarity to the way grain is tracked from the farm to the marketplace.

This is a blockchain product in production that will help farmers be paid more quickly and GrainChain elevators better track supply. Real product introduction to improve people's lives.

Next slide. Let me turn to Voatz, a Boston-based company using blockchain technology to provide a safe and secure mobile elections platform. On our last earnings call, I talked about how the city and county of Denver would be using a Voatz application to provide mobile voting secured by blockchain to deployed military personnel and other overseas United States citizens during the upcoming municipal elections.

That election closed on Tuesday. The vote went well. A mandatory five-day audit is ongoing. This is great work and great news for Voatz.

What's next on Voatz roadmap? More states and municipalities to see how easy it is to use the Voatz product. I expect to see its adoption continue to grow. And I expect to see cities and counties using the Voatz product to help the disabled more easily, safely, and securely vote.

Next slide. Medici Ventures is building a solid keiretsu. These companies are getting blockchain product into production and those products are being adopted more broadly and used in more ways that are improving people's lives. Going forward, we will keep our shareholders updated as each company makes advances with its products and as our government as a service model takes shape. Patrick?

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

Thank you, Jonathan. Let's turn to retail. We've got lots of good news to discuss in retail. Next slide. The retailcourse has corrected. I'm going to turn it over to Seth Moore.

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

Great. You'll recall from our last earnings call that we said we would return to profitable growth focusing on contribution, expense structure optimization, and repairing our rankings in natural search. We're pleased to report that we're trending ahead of plan on all three fronts and repairing our rankings in natural search.

We're pleased to report that we're trending ahead of plan on all three fronts, with contribution growing north of 110%, our G&A structure having been reduced by roughly 25% through a combination of eliminated redundant software licenses, improved automation, and reduction in headcount. And our SEO rankings have improved throughout the month of March.

As a result, our ad spend was more efficient than we had forecasted for the quarter, our site converted better, and our gross margins came through more positive than we had anticipated in the middle of the quarter.

On Slide 21, we expect to see continued improvement from several of these initiatives, like expansions to our AI automation, improved personalization and site experience through our focus on CRM, and also improvements in the monetization of our site traffic through new ad tech.

For more color on that, let me turn it over to JP.

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

Thanks, Seth. We're really excited about this project. Our current ad tech has 2 limitations -- lag time and the ultimate relevancy it can achieve. We've had 10 teams across the company building a new ad tech, which went live last week in alpha. This solves those two problems and allows us to open up far more valuable real estate to our co-op partners and better monetize our tens of millions of monthly visitors.

The machine learning layer, which handles both the auction and the relevancy, ensures the experience stays relevant to our consumers. Our estimate is that the additional real estate will be at least five times more valuable to our co-op partners. This is not only a huge win for our partners, but will have strong impact on our bottom line results as it ramps up this Q3 and forward.

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

Let me mention just before we move on, on machine learning and AI. I've mentioned before that in our 19 years we've seen a number of evolutions in digital marketing and the internet. And some of them we caught and were early in and some of them we didn't catch the first wave.

AI and machine learning we caught and we built a great team, run by a fabulous woman here. And what we have probably integrated into about 30% to 40% of the places that we need to integrate throughout the company. And it's just utterly a game changer for us.

So Seth, go ahead?

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

You'll also recall we mentioned in our last quarterly call that gross margins in Q4 and Q1 were suppressed year-over-year as we rebalanced freight lanes and carriers to improve efficiency. But that these changes -- we're pleased to say that we believe we are ahead of schedule (inaudible) benefits of reduced shipping costs (inaudible) and making those transitions and think that this will provide more benefit this year than we anticipated 6 weeks ago.

So let's jump to Slide 22. Slide 22. The result of all of this is that the quarter ended at \$39 million in contribution or 110% ahead of last year and \$2 million better than we had forecasted on our last earnings call. This improvement since our last call is largely attributable to more efficient ad spend rates and better gross margins as a result of our supply chain optimization initiatives, yielding more benefits in quarter than we had expected.

So let's go ahead to Slide 23. With our expenses trending on plan, this means we finished the quarter \$2 million better in adjusted EBITDA than we had previously forecasted and at near breakeven levels for the full quarter on a retail standalone basis.

So let's jump to Slide 24. I would add that in addition to this better-than-expected improvement in contribution, the quarter also represented our first double-digit contribution since Q1 of 2017, in spite of the fact that the carry in freight lane transitions are creating significant headwinds in gross margin this quarter.

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

I'll jump in. I just want to emphasize that even with that headwind, we have our contribution margin back into double-digits, and that those changes in logistics are going to pay big dividends in the second half of this year. And I want to jump again on that, in the lower left hand corner, contribution.

I told everybody on the last conference call that this was going to be a year of extraordinary growth in contribution, which is gross profit minus advertising costs, which is really what everybody in the internet runs to, and manages to, and optimize to. And that 111% increase is actually above plan for us. And this is the year of, again, very high growth in that number to get us back to profitability.

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

Great. Let's jump to Slide 25. So one of the biggest reasons that we were able to overcome that gross margin headwind and post such significant contribution gains can be seen on this slide. After sequential month over month declines in natural search rankings for 15 out of 16 months from early 2017 through Q3 of 2018, we've now posted 7 consecutive months of sequential month over month growth. Again, that's to say these are not year-over-year numbers. These are month over month improvements showing steady improvement in SEO rankings every month since September.

This trend of improvement is helping us reduce our reliance on paid media and focus on targeted acquisition of high-value customers with our marketing dollars. It also is a leading indicator to the strength of our retargeting programs, display, and email, which we believe will continue to strengthen as the year goes on in tandem with these ranking improvements.

And I would add, while we've seen incredible progress this year, we still believe we have a lot of room left to grow. We by no means think we've maxed out the gains available to us in SEO.

So let's go ahead and jump to the next slide. Here, you'll see we have also experienced tremendous growth -- 32% year-over-year in paid Club O memberships. And the percentage of our sales coming from Club O is now well over 25%. These members are extremely loyal and worth a multiple to us of what a standard customer is. And because of the growth in this loyalty program, it means we can be more targeted in our acquisitions, rather than doing expensive and continuous reacquisition, the way so much of the internet operates. We think this is really key to maintaining long-term profitable sustainable growth.

So let's go to Slide 27.

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

So last time I spoke to you, we were just coming up on the point where those lines crossed and now, we've passed through them. And what that means is that we are generating in contribution, that is gross profit minus advertising, more than enough to cover our actual expense structure.

And that's a magic point to be and I remember somebody asked a couple quarters ago, did they think that we, even in two years, could get back to this point. And I had to laugh because I actually knew that we were getting back there in February or March. But anyway, we have recovered. We have readjusted our expense structure and we have our contribution soaring again.

Next slide. I will just compare that to the competition and their march to profitability. When those two lines cross on the right is when our competition will reach profitability. We had -- now, of course our competition has other things to go for. It's growing a lot faster and it's burning billions of dollars that we don't have. My point in putting these up is, while there's a lot of great and glorious things that could be said about the company on the right, one thing that can be said about the company on the left is that business model where the contribution exceeds the expense structure is a sustainable business model. You can do that forever. You can keep your nose two inches above the water line forever. You can't keep your nose 2 feet below the water line forever. But maybe there's a plan there that I've missed to date.

Anyway, let's go onto the next slide. This puts us in the point of actually raising our guidance. It's been quite rare in our history we've given any guidance and when we do, it's not specific numbers. I said that last time we spoke that you could expect us to be hitting a contribution of \$160 million to \$180 million. We're now raising all that \$5 million. And that means that we're raising our guidance for adjusted EBITDA for the year up 50%. We're taking it from \$10 million to \$15 million with a bullet, as they would say, in the top 40 because I think that you will see that number quite possibly slide up over the course of the year. But all that said, we're taking our guidance up to \$15 million for the year.

Next slide. Really pleased to report, Dave Nielsen is becoming today the President of Retail. He joined us 10 years ago. He's a real professional from the world of retail and worked with us for some years, left us 3 years, was the CEO of another company, came back and has been a great partner for the last 6 months in a lot of this restructuring and re-jiggering of the company. And I know the whole company celebrates that he is now replacing me as President of Retail.

Next Strategic Alternatives. Seth, why don't you take it?

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

We mentioned in the last several calls that we're exploring strategic alternatives for the retail business, including potentially hybridizing with a national brick-and-mortar or other non-retail web property, because we believe that in the long run, hybridization is a superior model to go it alone pure play ecommerce in the home goods industry.

We also said however that we're going to run the retail business as though we're going to hold it forever and optimize its cash generating value. Unsurprisingly, the positive cash flow trajectory of the business has attracted the interest of additional prospective buyers interested in our technical capabilities, drop ship supply network, and low working capital cash generating model.

As a result, we feel we maximize shareholder value by facilitating their diligence and entertaining their interest, before making our final decision amongst strategic alternatives.

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

Slide 33, GSR. I am delighted to report that GSR and tZERO executed an investment agreement. They're just putting in \$5 million in cash and marketable securities, the transfer is in process, and that's at a \$1 billion post-money valuation. And we're letting them out of all previous contracts, agreements, LOIs, et cetera. And now, we're continuing with Makara and GSR may proceed to be involved in that Makara deal. But in the meantime, we've got \$5 million out of this for a year of a lot of frequent flyer miles.

Let's go to 34. Now, Makara is an independent fund. It's independent of GSR. Makara is in Singapore. They continue to do deep due diligence on us, on our business model, our intellectual property. We can't commit that there's going to be an investment made. They have the behavior of a serious and professional fund and we remain engaged through our advisors with them and discussions are daily.

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

So we're working closely with Makara. Our advisors are talking to them. Their diligence is real and we're moving forward and sometimes these things take longer than one hopes. But it's moving forward. So next slide, 35.

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

Liquidity. Our cash balance was \$120 million on the balance sheet but actually, in the days immediately after the end of the quarter, we finished the ATM. So really another \$20 million. We feel good about that \$140 million. Because of changes Greg made in the payment schedule, this is not directly comparable with previous years because the highs and lows, the amplitude between high and low has been drastically reduced.

So we feel quite good about this and it is my constraint that I'm operating in that I think retail is -- will be doing, as I've said this year, and next year, we'll be back in the place where it's spitting out lots of cash and the whole blockchain side of the business will be structured so that next year, just the cash that retail spits out supports the blockchain side of the business. So that as a worst case, we're all good.

Now, if anything happens after that, like there is financing and capitalization of some of the blockchain companies, or tZERO turns into the oil gusher that I think it is, then that's all gravy. Seth, you want to add?

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

As a point of clarification on that the way most ecommerce companies' payment cycles work, they have negative working capital cycles where they get paid by consumers but then pay drop ship vendors on a delay. And most companies make those payments, call it, once a month on the first of the month. So at the end of every quarter, they're always at the cash peak. So their publicly reported cash numbers are the highest numbers their cash ever reaches.

We've reduced that amplitude between the peak and the valley before and after payment cycles this quarter. And so this isn't directly comparable to previous quarter end cash reporting cycles we've issued and is actually a significantly higher average cash balance than what we reported in previous periods.

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

Next slide. So to summarize, retail has come back. It's come back enough we're raising our outlook for the year from \$10 million to \$15 million. It's come back both because we've radically revisited our expense structure, because the machine learning is kicking in across the business. It's driving ad spend efficiency, frankly. I mean the machine learning is doing very, very well at things that a decade ago, we were proud that we were getting PhDs in math to do. It turns out machine learning can beat them all, and our site performance has never been better.

So you see in the alpha through echo on the bottom row, you see these graphs such as the V-shaped return of our retail bottom line, where we are. In bravo, you see we have crossed the line back into where gross profit minus advertising expense covers the cost of running the business. What we expect that contribution to be and hence our bottom line to be is going up and hence, we're raising guidance for the year.

In delta, you see this product roadmap from Saum and tZERO and that's really the main event. I have to say this is -- while it's important that we've got retail back to the point where it's adding -- it's generating cash, at the end of the day, we see now that tZERO is this enormous opportunity. And the fact that we've laid out for almost a year now these roadmaps and been hitting all these marks I think has been somewhat unnoticed. And under echo, there's the Keiretsu that Jonathan has assembled, and I think there may be nothing like it in the world. If there's anything else, there's only one other thing like this in the world.

So with that set of comments and charts let's turn to questions.

**QUESTIONS AND ANSWERS**

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

Great. Thanks, Patrick. We've had about a dozen questions come in and I'm going to take them in the order of the companies that we presented with. We'll start with tZERO. Saum, someone has asked about updates on timing of opening the ATS for trading for tZERO tokens to all investors, not just accredited investors.

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**Saum Noursalehi** *Overstock.com, Inc. - CEO of tZERO*

The lockup ends in August. I believe it's around mid-August when it opens up to the masses for trading our tokens.

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

And that's not a technology limitation. That's a regulatory limitation.

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**Saum Noursalehi** *Overstock.com, Inc. - CEO of tZERO*

Due to the reg-D offering we did.

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

Great. And can you give us an update on the BOX joint venture exchange?

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**Saum Noursalehi** *Overstock.com, Inc. - CEO of tZERO*

Yes. The technology for the joint venture is complete. BSTX is essentially licensing the tech that we had built for our ATS, a separate version of that. And there's been a lot of work done on building a rulebook for these digital assets, and how to treat them, and that draft of that rulebook has been submitted to the SEC. We're awaiting their response.

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

On the Medici front, the question came in about Medici Ventures has just had a new Chief Technology Officer. What's his role and will he influence the strategic direction of the Keiretsu and why or why not.

Jeremy Smith is our new CTO. He is a great hire, wonderful manager, great technologist. He will influence the strategic direction of the family of companies to the extent that they're using Medici Venture developers. Several of the companies in the family of companies have their development work done by Medici Ventures. Jeremy is intimately involved in all of those. Our keiretsu companies come to Salt Lake a couple times a year. They hear what Jeremy is thinking about technology. So there's indirect influence on a broad scale and direct influence on specific companies.

The next question, and I'll just read this as it came in, asked for an update on the Mount Rushmore Medici Venture companies, tZERO, Bitt, Medici Land Governance, and Voatz. It's an interesting way to refer to them. We've given a pretty fulsome report on both Voatz and tZERO. Bitt continues to work closely with the Eastern Caribbean Central Bank. That project is moving forward. The development on that project is happening here in Salt Lake with the Medici Ventures developers taking the lead.

Medici Land Governance continues to be around the world. The projects in Africa, Mexico, and Wyoming are going well. I think we can expect other announcements from Medici Land Governance in the next weeks and months.

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

All right, let me make a comment on that too. I've described in previous calls the government as a service, the blockchain tech stack. I've just been in Washington, D.C. with World Bank, and Africa Development Bank, and Interamerican Development Bank and a whole bunch of ministers from foreign countries. Everybody wants this. I mean we're really at the point where we're trying to decide what country is the make to take as our, say, prototype test bed for these technologies.

But there's so many countries reaching out for this tech stack or slices of it that we're really in the catbird seat for that. And Medici Land Governance, in fact, I think you'll have it -- you may have some significant announcements in the next week. It's just amazing to me. The scale of that business may be even bigger than tZERO.

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

I will say it's pretty interesting the heads of states and the ministers that we're talking to in various of the Medici Ventures Companies. It's pretty exciting. There's another question for Medici. Last quarter, Jonathan, you said most of the Medici Ventures Companies were generating revenue. Can you elaborate on that?

That continues to be the case. Sometimes it's small startup revenue when it's a small startup company. Other times, it's growing into more. We don't provide particulars on those other than the ones that are in the 10-Q because we consolidate. And we're pleased with the growth of most of the Medici Venture companies.

Last Medici question is can you give us any thoughts on security token offerings for more of the Medici Venture Companies beyond tZERO? I would say, Patrick, I know you want to add to this, but I would say that that's something that once the next steps of the tZERO roadmap are built out, many of the Medici Venture Companies are looking at. We can't be in a place to force any of them to do that. Just a great way for them to monetize.

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

I agree. There's a great reason to capitalize up and there's a lot of things that security tokens may be great for. And we're working with all kinds of -- there's 3 companies around the country that are trying to -- and one in Asia at least -- who are trying to bring security tokens to REITs, for example and disrupt that industry. There is somebody in Hollywood who wants to bring security tokens to Hollywood financing and disrupt that, and commodities, and energy, and et cetera, et cetera.

So Saum has really built a crossroads that people are coming to. And so basically, all the security token work that you hear really around the world, people are coordinating with Saum and what's going on in tZERO. I'm not sure that's even an exaggeration.

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

Well, I think this is a perfect example, the benefits of the keiretsu. It's a Japanese term where there are companies of interlocking ownership that can work together to their mutual benefit. And that's what is going to happen with tZERO as it has its platform build.

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

Right, and I think that besides it getting into the world of REITs and besides getting into the world of Hollywood finance and all these other things, a great application for security tokens is going to become in reg-A plus offerings. Small company offerings.

And so why not use, again, along the model of Jonas Salk. Let's use -- maybe we have a couple of our small blockchain companies do very small offerings on tZERO and in the process, we develop whatever needs to be developed to support reg-A offerings for small companies.

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

Okay. Turning to retail. Question #1. What gives you confidence in your ability to generate positive sales growth while significantly scaling back your investment spending in the retail business. Patrick, I'm not sure that question makes a lot of sense to what we're actually doing but you want to address it?

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

Again, I'm taking growth this year to mean contribution dollars. And I said we could grow it from whatever I said last time, \$80 million to \$160 million but I really think it's \$80 million to \$185 million or \$200 million. And that's the main event. I am confident that we can scale -- that we can grow dramatically those contribution dollars this year and next. And that's the main event.

At this point, I am not in the game of trying to slug it out with a competitor who lost over \$500 million last year and they lost \$150 million



last quarter and has lost \$2 billion in the last 7 years. I'm not going to slug it out with them. We're going to have a company that spits out \$50 million -- a retail company that spits out \$50 million a year. I'd rather have that company then worry about chasing a top line again and having a company losing the kinds of money we would have to lose to compete there.

Seth, do you want to add something to that?

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

Yes. In terms of -- we gave the guidance that we would return to slight growth in Q4 of this year for topline sales. The way we can continue to growing contribution, like Patrick said, while posting those positive returns, is through significant improvement in SEO and then retention on the other side, from Club O.

We showed you those numbers with massive improvements in the loyalty program, more than 25% of revenue there. You don't need big marketing dollars to keep the members of your loyalty program active. And likewise, SEO as the traffic feeder into your retention channels doesn't require big advertising investments. And so that's really the growth engine for the company going forward, both from a contribution standpoint and also from a sales standpoint.

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

Next question and I'm watching the clock. Where are you in your efforts to improve SEO? We talked about that a little bit. Seth, you want to add anything?

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

Yes, we've made great improvement there. March was again another big positive sequential month, month over month in rankings. And if you look at it, we still have lots and lots of headroom. I think we can easily double what we have in SEO from where it is here and that's just getting us back to where we were in 2017.

And so I think we have a lot more months of improvement in front of us. And I think that has the potential to be a growth engine for us, for the next year or two to come.

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

Great. JP, this next question may be best directed to you. It talks about how Wayfair has indicated it spends 10% of its budget on direct mail and 15% on TV. How does that compare to Overstock's allocations and how do we determine our allocations?

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

The direct mail, we spend below that 10%. We have found that direct mail, while it can give you some pretty quick revenue bounces early on, has an uncertain return to the bottom line in longer windows. So we haven't invested as heavily as Wayfair has there. We're about the same ratio on TV, in that same range.

The way we determine that is, we have a tops down media mix model that bounces up against a bottom's up multi-touch attribution model. We then use a layer of incremental testing with all the major players in that space and that triangulates into what we see as our optimal mix.

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

JP, I'm glad you're over those.

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

This is Commander Data and yes, I was just thinking the same thing.

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

Patrick, we're right on the same page. JP, this one is probably for you too. Pinterest just went public. How does Overstock use Pinterest and how has that changed over time?

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

Pinterest had one of the earlier touch points with consumers. So if we look at an average conversion window, they're more on the 30 to 45 day window. So a little bit longer than other players. So we often work with Pinterest. We have a great relationship with them. They get an early read on what the customer is looking for, what type of home category, and we work with them to then translate that into an experience on our site that fulfills on the product they're looking for.

So great relationship with them. We have a good budget with Pinterest and continue to find more ways to advance that.

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

You have a huge budget with Pinterest. I will mention that a year and a half, two years ago, we told you about an innovation we had discovered in marketing, and we're using it, and we're not going to disclose it because we thought it was so good, and it really was Pinterest. It was Pinterest and social media because it's shifting -- people go to Pinterest 30 days before they buy to get inspiration. They go to a search engine 8 days before they buy. And we learned that it was fairly underpriced really. Reaching people through there was as yet underpriced. So I think JP has been an innovator in moving us up that funnel to -- and the work we're doing with Pinterest, like frankly, the work I hear is doing at Facebook and Google. I'm constantly being told by people in these other companies that the work we're doing is at the very leading edge of the work that they do.

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

How are international sales progressing? Seth, you want to tackle that one?

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

I would say probably the biggest call out for international is that during Q1, they've flipped to posting positive contribution for the business. So they're accretive to the contribution of the company, which is unlike many of our competitors who lose truckloads of money out of their international businesses. And so yes, the international business continues to progress. We continue to get deeper penetration into Canada and we're doing it with positive contribution benefits to the business overall.

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

Amazon just went to 1-day shipping for Prime. Could we go to 1-day if necessary?

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

So the one thing I would call out with Prime and shipping timeframes. You will see almost no furniture inside of Prime and the reason is large inventory, and particularly home goods tends to turn at a much slower pace, and it's also very large in terms of its space requirements.

So going from 2-day to 1-day shipping means you need a large multiple of a number of nodes with inventory in them to manage that, which means there's an exponential cost addition to having slow turns. That's why Amazon does not carry lots of furniture in Prime, or rugs, or other home goods. It's also why even other home goods players who try to do it end up stocked out in so many locations that they still don't get nationwide footprints with 2-day or 1-day shipping very frequently because the inventory management exercise is so difficult.

That said, we are making huge progress with our third-party logistics program to our drop ship suppliers. We can now, out of 3 warehouses, because of the innovative things we're doing in freight, ship home goods into a 2-day shipping zone to 98% of the country out of 3 nodes with a much more limited inventory base than what our competitors are able to. And we're seeing great returns and great adoption in that program that's helping drive some of the supply chain efficiencies we've been referencing throughout the call.

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

Okay. Thank you, Seth. Last question for retail. Advertising on ecommerce platforms is becoming commonplace. Can Overstock start doing that and would we want to?

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

Just a couple of potential definitions of ecommerce platform. I'm going to assume they mean other pure plays or other retailers here. We do. The way we evaluate it is if an ecommerce platform has unique access to a customer that we couldn't get through another method, we will consider and place product there to get that customer, if that unique approach to get that. We're careful in both trying to obtain consumer information, so we have options to re-target, as well as making sure that that is a healthy relationship.

But we do evaluate all ecommerce platforms, are in many of them, and have very specific guidelines about how we run those platforms inside those platforms.

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

Great. Okay. So that's all the questions that came in ahead of time. We appreciate shareholders asking questions. We remind everyone listening on this call that our Annual Shareholder Meeting is this afternoon at 1:00 p.m. Mountain, 3:00 p.m. Eastern. That's webcast. We will be taking questions and doing Q&A then. So we invite anyone who didn't get their question answered this time to participate then.

Patrick, before we sign off, is there anything you'd like to tell our shareholders?

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

It's an honor working for smart shareholders and I think we have -- I think we're really sitting in the catbird seat. You're going to see it this year. You're going to see this quarter. Even weeks, you're going to be seeing some remarkable products hit the world out of tZERO and you may even see Overstock --promoting.

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

Thank you, Patrick. You've whet our appetite. Shareholders thanks for participating. Thanks for entrusting your capital with us. We're working hard, and we'll talk to you in a quarter.

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**Operator**

Thank you ladies and gentlemen, for attending today's conference. This concludes the program. You may all disconnect. Good day.

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