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Q1 2020 Overstock.com Inc Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Q1 2020 Overstock.com Earnings Conference Call. (Operator Instruction). Please be advised that today's conference is being recorded. (Operator Instructions) I would now like to hand the conference over to your host for today, Alexis Callahan. You may begin.

Alexis Callahan *Overstock.com, Inc. - Director of IR*

Thank you. Good morning, and welcome to our first quarter 2020 earnings conference call. Joining me today are Jonathan Johnson, CEO of Overstock and President of Medici Ventures; Adrianne Lee, CFO of Overstock; Dave Nielsen, President of Overstock Retail; and Saum Noursalehi, CEO of tZERO. Please note that we are conducting today's call remotely.

Let me remind you that the following discussions and our responses to your questions reflect management's views as of today, April 30, 2020, and may include forward-looking statements. Actual results may differ materially. Additional information about factors that could potentially impact our financial results is included in our Form 10-K for 2019, our subsequent filings with the SEC and in our press release filed this morning. Please review the forward-looking statements disclosure on Slide 2 of today's presentation.

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

Jonathan E. Johnson *Overstock.com, Inc. - CEO and President of Medici Ventures*

Thank you, Alexis. Good morning to all listening. I'm pleased to be talking with you again. I'll first provide a few corporate updates, including the impact of COVID-19 on our business. We'll then discuss the Overstock Retail business followed by an update on tZERO and some of our other Medici Ventures companies. We'll finish by taking questions. Slide 4, please. Let me start by welcoming the newest addition to our executive team. Adrianne Lee, our new CFO, who joined us last month. Welcome, Adrianne.

Adrianne Lee *Overstock.com, Inc. - CFO*

Thank you, Jonathan. I'm thrilled to join Overstock, which has been such a pioneer in 2 tech-based industries, e-commerce and blockchain. My focus has been working for companies that are innovators in the B2C world, most recently in the travel industry where at Hertz, I was the CFO of its North American rent-a-car business and managed key metrics to drive revenue and productivity. Prior to that, I spent time at BestBuy and then in the multinational brand environment of Pepsi. I'm excited to get back into the direct-to-consumer retail space.

2020 is a pivotal year for both areas of our business and thus far has proven to be a year of progress and results. Our retail team is continuing its focus on sustainable, profitable growth, built on a strong technological foundation, brand, and culture of innovation. And as Jonathan will discuss, now more than ever, the world needs blockchain technology. Overstock has a unique opportunity to move up in the consumer and investor mindset. That is why I joined the team and is what I will be focused on achieving as CFO.



Jonathan E. Johnson *Overstock.com, Inc. - CEO and President of Medici Ventures*

Thanks, Adrienne. It's great to have you on the team. Now let's turn to corporate updates. Slide 5, please. I want to talk at length about something that is top of mind for everyone: the impact of COVID-19 on the business and how we view the shifting paradigm in which we now live and operate.

Overstock as a company was well positioned for and has generally been operating well in this new environment. We are 100% work from home other than at Overstock Retail's three distribution centers where crews work socially distanced and in shifts. As I mentioned last quarter, we did a company-wide trial run of work from home in early March to make sure our systems and processes could function seamlessly. And it has worked.

There have been minimal disruptions to our business due from -- due to working from home. Overstock hasn't made any layoffs. Instead we're hiring, particularly in customer care, to keep up with increased sales. The Overstock business model couldn't be better suited to operate in the current environment. Overstock Retail's April sales are up significantly, over 120% year-over-year. Our model scales so effectively and cost efficiently because of our focus on technology and automation embedded in our systems.

Our principal offerings, home furnishings, are increasingly in demand. Home goods are one of the most relevant categories under the current stay-at-home mandates. Because we are a pure-play e-commerce retailer, customers can buy what they need from us from the safety of their homes. Our 20-plus years of long-standing partner and supplier relationships and our drop-ship model have allowed us to be nimble and to diversify our geographic and sourcing risks. Importantly, Overstock's value proposition is particularly attractive during uncertain financial times. We offer great products at great prices.

Next slide. The retail industry landscape is shifting. Significantly. Industry-wide retail sales declined by nearly 9% in March, with estimates that they will decline by 30% due to the pandemic. Traditional brick-and-mortar retail sales are estimated to decline by 50%, as consumers shift to buying online. E-commerce sales are estimated to benefit from this shift, growing an additional 25% to 30% beyond original estimates before the pandemic hit.

These are meaningful shifts as consumers become increasingly comfortable and accustomed to making purchases online. These forces combined to advance us several years forward in terms of online penetration. The sizable shift from brick-and-mortar to online in the home furnishings market has gone from only 23% last year to an estimated 42% now.

This is nearly double the amount of home goods being bought online versus in physical stores, a radical jump compared to the slower 2% annual progression over the last 10 years. While the percentage is not likely to stay that high when businesses begin opening back up. We don't expect it to regress to pre-pandemic levels. Some of this change in online buying habits will stick.

Next slide, please. The impact of these market dynamics on the Overstock Retail performance has been meaningful. This chart shows sales growth as compared to the year ago comparable periods. We've intentionally segmented the time periods to show organic operational improvements versus what I'll call stay-at-home mandate-related tailwinds.

As you can see from the chart, we were already performing significantly better in the first quarter as compared to last year. We were already on track to outperform our first quarter plan before stay-at-home mandates began. From March 13 through the 31st, our sales grew in our signature categories as people began to focus on making their homes more functional during the national stay-at-home mandate. Our top category of area rugs grew 20%. We saw over 100% growth in office furniture, outdoor play equipment like swing sets, and exercise equipment. That growth accelerated as the stay-at-home mandate reached the entire country by April 1. Since then, we've seen accelerated growth in home furnishings as people have shifted their shopping behavior from brick-and-mortar to online in response to the current restrictions. As a result, year-over-year sales in April are up over 120%.

It's important to reiterate that we were already demonstrating strong performance before the stay-at-home mandates hit. I'm a cyclist, so bear with my cycling analogy. When I ride my bike with a tailwind, I go faster. But when my legs are also strong, I go even faster and can catch those ahead of me. Dave will talk later in the presentation about how our operational legs have become stronger through focus

and execution. The point is that we were already performing well. We had strong operational legs. And the customer habits' tailwind, we are now experiencing, simply allows us to go even faster.

Next slide. We've seen a meaningful increase in new customers this year, particularly in April. You can see that new customer growth in April alone increased nearly 250% versus the year-ago period. These new customers demographically mirror our existing customer base. Our brand values and our value proposition resonate with them, evidenced by demand being almost entirely from home furnishings, things like area rugs, office furniture, patio, beds and other home-related items.

These are our bread-and-butter products. These are exactly what people are buying. As a percentage of sales, home goods now represent 87% of the total. Given what they are buying, we don't believe these new customers are just one-time customers. Overstock Retail is well positioned to capture and convert the shifting online home furnishings traffic. We're providing products people need and enabling them to buy from the safety of their homes.

Next slide. Now let's briefly discuss the impact of COVID-19 on tZERO. The pandemic has certainly affected capital markets, with depressed valuations and volatility causing disruption in trading activity and business development efforts. Issuers have largely sidelined trading existing digital securities until market conditions normalize, so tZERO has seen a slowdown in issuers looking to raise capital. That said, conversations do continue. Like Overstock Retail, tZERO and its subsidiaries continue to operate well in this environment. SpeedRoute benefited from increased trading volume, generating record quarterly routing revenue in the first quarter.

Next slide. Many of our blockchain companies continue operating as usual. Some stand to benefit as the problems they are helping to solve using blockchain technology are issues exacerbated by the pandemic. The pandemic has created a sense of urgency to find solutions; solutions our companies are already in the process of developing.

I'll talk more about some of these later in the presentation, but these problems include things like self-sovereign identity and health records, the ability to have a blockchain-based immunity passport that proves you either have the antibodies or have been vaccinated. Voting - having a safe and secure mobile voting solution has never been more important than right now. Even if we can vote in person in November, no one wants to stand in line to touch a machine the rest of the neighborhood has touched. Supply chain tracking and monitoring, particularly of food and medical supplies, is top of mind as we struggle with shortages and delays. And digital currency. Paper money is germ-laden and hard for governments to distribute.

Next slide. Even though our focus and business model made us uniquely suited to help solve consumer problems at this time, the reality is we have faced challenges over the past several weeks. Surging sales have pushed us beyond our capacity to handle all customer care needs. While customer service requests as a percentage of sales have decreased, the absolute volume of requests has gone up.

We've responded by hiring, streamlining our customer service channels, and launching automation initiatives. That said, we are still taking too long to respond to customers who are reaching out, sometimes taking a week or more. We have had to turn off our phones for a few weeks, as did most businesses, but we're pleased it was only temporary. Our phones are back on today. We hope hiring hundreds of more agents over the past few weeks will return us to normal standards of response.

Fulfillment has also lagged as we and our partners adjust to working with crews working in shifts under social distancing mandates, and carriers are maxed out. There's a high demand for packages and limited crews to manage the volume, which has caused tracking to decline, frustrating partners and customers.

Going forward, there is a lot of uncertainty. There is no precedent for what we are experiencing. We don't know exactly what we'll face in terms of longer-term challenges. Broader economic indicators will certainly affect us, things like consumer spending, factory output and pricing pressures. Unemployment is high and growing. Partners may face capital constraints. Carriers may reduce delivery volume or shut down altogether. We could be deemed non-essential or otherwise become subject to some sort of government shutdown. The state of the capital markets may affect our companies' ability to raise capital or generate revenue.

To recap, we don't know what we don't know. While we certainly are susceptible to any number of market-wide risk factors, on balance, I



think Overstock can and will react to shifting market conditions.

Next slide. I know our shareholders care about our digital dividend. Since our last earnings call, we've made a lot of progress. The Board declared the dividend. We received DTC eligibility. NASDAQ granted us an ex-date, we've completed the registration process, and we've passed the record date. We now look forward to distributing the dividend on May 19. This dividend is not a cryptocurrency. It's a preferred share of stock.

In response to investor questions, I'll reiterate some of the value of the dividend. First, there is simply its face value. Shares of OSTKO trade on the tZERO platform and they are worth the open market trading price. Yesterday, OSTKO traded and closed at \$15 per share. Second, these Series A-1 shares are preferred shares and pay a cash dividend and have each of the 3 years since issuance. Third, distribution of the Series A-1 OSTKO shares to all record date shareholders should increase participation on the tZERO platform, as investors seek to buy and sell shares and broker-dealers seek to execute trades on behalf of their clients. This increased participation and platform adoption may increase the overall value of tZERO, which, as a majority 80% owner, ultimately benefits Overstock and its shareholders.

I should mention we believe liquidity in OSTKO will be thin right out of the gate, as it will take some time to get all 4 million shares on the platform and for the ecosystem to fully develop, and there also may be selling pressure at first as a few index funds may need to liquidate. But longer term, liquidity will improve and participation will increase. Remember, you do not need to sell your Series A-1 shares. You can hold them indefinitely and receive the cash dividend as paid.

Slide 13, please. Some corporate housekeeping. First, our ATM. I want to explicitly mention that we have not used the ATM in 2020. We don't have any current plans to use it at these prices. We filed a prospectus supplement earlier this month to reflect the loss of our WKSJ status and to reallocate our shelf for the dividend. Our balance sheet is strong, with our cash balances growing significantly. It's simply good housekeeping to have the ATM in place. We filed a second prospectus supplement related to our dividend. This one completes the registration of our Series A-1 preferred shares so we can distribute the dividend next month. On the regulatory front, I'm pleased to say there is nothing of substance to report.

Next slide. Last quarter, I mentioned the righting of our ship. We identified specific company initiatives, distractions to eliminate and objectives and key results against which we can measure our progress. We've now righted the ship, and we are executing. The ship is sailing, even in today's choppy waters. We are resilient, and we are well positioned to achieve Overstock Retail's goal of achieving sustainable, profitable growth.

Let me remind you that Overstock is, at its core, a technology company. We are cutting-edge in retail. We are leading the charge in blockchain technology. Technology is our core. It is enabling us to respond well to shifting tides. Because of our focus and our technology foundation, this ship is sailing.

Next slide. And with that, dive into the business updates. Dave Nielsen will first talk about Overstock Retail's performance.

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

Thanks, Jonathan. I'm eager to discuss our first quarter performance. It was a solid quarter for Overstock, and I'm pleased with the progress we've made in strengthening our cycling legs, as you put it. I'd like to reiterate the warm welcome to our new CFO, Adrienne Lee, and ask that she review our first quarter financial performance.

Adrienne Lee *Overstock.com, Inc. - CFO*

Thank you, Dave. I'm happy to cover the first quarter results. As a reminder, most of the accelerated growth in our online sales from stay-at-home mandates will fall into the second quarter. In the first quarter, our revenue trend improved, and we expanded our margins, demonstrating our focus on sustainable, profitable growth and execution against our supporting initiatives.

Next slide. Our first quarter revenue came in at \$340 million. While this is a decrease of 6% year-over-year, I would like to highlight the sequential improvement. We realized double-digit declines over the last several quarters, so this improvement is both meaningful and



reflects our commitment to growth. It's important to note that we were gaining growth momentum prior to the mid-March stay-at-home mandates, which accelerated our online sales.

Next slide. Our first quarter gross profit came in at \$74 million with a margin of 21.9%, a 200 basis point improvement year-over-year. This increase is the result of focused initiatives that lowered shipping and returns costs and drove higher volume through our sponsored products platform.

Next slide. Our first quarter contribution came in at \$38 million with a margin of 11.2%, an improvement of 40 basis points year-over-year, reflecting solid operational performance and the team's commitment to disciplined spending.

Next slide. Adjusted EBITDA improved 24% year-over-year, posting a loss of \$1.9 million. While not yet positive earnings, the team continues to focus on our customer experience, promotional model improvements that leverage AI and machine learning, while we execute against disciplined and efficient spending.

Next slide, please. As we've previously discussed, Overstock is in a \$300 billion market, which has seen steady low single-digit annual online migration. As Jonathan mentioned in his remarks, until mid-March, the percentage transacted online was approximately 22%, with the balance of purchases in brick-and-mortar.

The stay-at-home mandates shifted this landscape, and according to various third-party sources, show the percentage transacted online doubling to over 40%. While we are uncertain to what the landscape will ultimately look like, increases in the adoption level for online furnishing purchases that were anticipated to play out over a number of years could have potentially happened over the course of the last several weeks.

Now with that, I'll turn it back over to Dave to discuss our customer segments, strategy, brand pillars and initiatives.

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

Thank you, Adrienne. Next slide. As we've shared previously, we've done a great deal of customer research, and our findings continue to drive our focus. Two customer segments in particular play to our strengths, which together represent 40% of the home furnishings market or roughly \$120 billion dollars. These 2 customer segments already over-index for shopping with Overstock. They are deal driven, want to feel great about their purchases and want a low-hassle experience. We continue to leverage analytics and machine learning to ensure we provide the shopping experience they desire. Our entire strategy is designed with this end in mind.

Next slide. Overstock's mission is to create dream homes for all. We've consolidated that vision and focus onto a single slide. We know that in order to achieve sustainable, profitable growth, we must focus on serving our customers' highest needs. We remain relentlessly focused on our 3 brand pillars: product findability; smart value; and easy delivery and support. They provide the guardrails for innovation, so we're only working on those things that improve the experience our customers want. On the following slides, we'll share metrics we use to evaluate our progress against these objectives.

Next slide. We measure product findability in 2 ways: speed and relevance. Relevance makes it easy for customers to find the products they want. As you'll see on the chart on the left, we've made site search improvements over the past year that continue to lead to higher site search conversion. And you can see it's favorable 8% year-over-year. Speed also matters. Research continues to indicate that customers are highly sensitive to page load speed. As you can see by the chart on the right, we are continuing to make improvements in our page load time, particularly in mobile, where we have the most room for improvement.

Next slide. Traffic continues to shift towards mobile. And this has been a key area of focus for us. People are increasingly buying from their mobile phones. As you can see from the top chart, mobile traffic has increased 13.5% year-over-year and represents 68% of unique visits at the end of the first quarter. This increase in traffic has had an exponential impact on the top line, equating to a 7.8% increase year-over-year in mobile sales in the first quarter. Mobile sales relative to desktop continue its steady climb and now represents nearly one-half of total sales.

Next slide. We've already shown you the spike in sales we saw from stay-at-home mandates in Jonathan's earlier remarks. What's important to highlight here is what the revenue represents. Customers identify with Overstock for buying home furnishings, our core product offering. Our customers want home furnishings, we have them, customers are able to find them, and they can do so from the safety of their own homes. Home furnishings represented nearly 87% of total sales in Q1.

Next slide. Of our 3 brand pillars, smart value is the most important to our customers. They want to find quality products at great prices. We work diligently to provide our customers with the best value to remain highly competitive with our pricing. As shown in the chart here, customers agree. We see customer satisfaction reflected in their increasing perception of our price advantage compared to other retailers.

Next slide. Smart value isn't just about the price of our product. It's about the total cost of the order, and that includes shipping. We conducted a survey earlier this year to see just how important free shipping is to Overstock shoppers. What we found is that Free Shipping on Everything essentially doubles shopper intent. It matters. Free Shipping on Everything is the #1 purchase driver among Overstock shoppers overall and especially among Savvy Shoppers. When the national emergency was declared, we decided to expand our already industry-leading free shipping program to a Free Shipping on Everything in the continental United States during the stay-at-home mandate. As you can see from the chart, it resonated with our customers during this time.

Next slide. One of our biggest costs is returns. We continue to focus on streamlining our supply chain and removing other areas of friction, all of which helped to drive down costs so that we can maintain our competitive pricing for our customers. You can see on the chart that our net returns cost continues to decline.

Next slide. As we've already mentioned, one of the most important purchase drivers is shipping and delivery experience. Through our continued work in optimizing our machine learning delivery estimate models, strategically positioning inventory and leveraging partner relationships, as you can see from the top chart, we were able to increase the number of 2-day ship items by 198% in the first quarter year-over-year. This will look different in Q2 because we've made some adjustments due to the recent sales growth. It's important to establish trust with our customers, existing and new, and ensuring we deliver their orders on or before the estimated delivery time is a huge component of that trust. In spite of skeleton crews and social distancing in ours and our partners' warehouses, as you can see from the bottom chart, we were able to improve same-day shipping by 4.4% year-over-year.

Next slide. We know that delivery and support translates to increased customer satisfaction. As you can see from the chart, the percentage of self-service initiated requests for parts and returns has continued to climb, covering over 40% of those contacts in March alone and indicating that we're providing an intuitive experience that customers love and which cost a fraction as much as a customer call to a CS agent, who are now able to work on more complex issues.

Next slide. And the net result of our relentless focus and operational improvements is more traffic and customers. Customers are finding what they need at Overstock. New customer lifetime value continues to increase. As Jonathan shared earlier, stay-at-home mandates have had a significant impact on the retail landscape, shifting sales from brick-and-mortar retailers to online. Overstock's growth is attracting new customers similar to our existing base, a demographic we know how to retain. We may see our 2 target customer segments become increasingly comfortable buying online sooner than expected.

Next slide. We remain focused on our strategy and on the specific initiatives that support our 3 brand pillars. For product findability, we continue to enhance our mobile website, including speed improvements and user experience. We are leveraging analytics to refine our machine learning models to improve site search relevancy and implementing new tools to improve product content. For smart value, we are focusing on clarifying our promotional price messaging, transforming our promotional model and continuing to reduce logistics costs. And for easy delivery and support, we continue to optimize our machine learning delivery models, position inventory for faster delivery and improve our customer support self-service experience through platform optimization. We are also pleased to differentiate ourselves from our competitive set by offering Free Shipping on Everything in the continental United States to our customers, particularly during this unique and challenging time.

Next slide. Home furnishings is a \$300 billion dollar market and growing. It is increasingly moving online, with penetration nearly double



what it was pre stay-at-home mandates. We are focused on the 2 customer segments that play to our strengths and that represent 40% of this \$300 billion dollar market. We have developed and are executing on a solid strategy with focused initiatives that will enable us to return to sustainable profitable growth. And with that, let me turn the time back to you, Jonathan.

Jonathan E. Johnson *Overstock.com, Inc. - CEO and President of Medici Ventures*

Thanks, Dave. I'm pleased with the progress Overstock Retail has made in the quarter and thrilled with how it's performed in April. Our focus has resulted in operational improvements being seen in our results, independent of the current market conditions. Our legs are getting stronger.

Slide 36. Let's now turn to Medici Ventures to discuss the progress being made there.

Slide 37, please. As we typically do, let's begin by discussing tZERO. Saum Noursalehi will talk about tZERO's recent progress and priorities. Next slide.

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

Thank you, Jonathan. Overall, tZERO had a nice first quarter. Like most businesses, we were not immune to the challenges stemming from COVID-19. However, I am encouraged by the start to the year and excited about the roadmap. I'd like to begin by highlighting a couple of key results we achieved last quarter, then dive into our priorities.

Slide 39. The recent market volatility has had a positive impact on equity trading volumes, which are highly correlated with the revenue generation of SpeedRoute, our order routing business. The company is responsible for routing up to 1.5% of U.S. equity markets. I am also pleased to report last quarter was the company's strongest quarter ever. We traded over 6.9 billion shares, resulting in a year-over-year revenue growth of 131%, all with zero downtime. This demonstrates the scale and resilience of the technology, which is also used by the tZERO ATS to trade digital securities.

Slide 40. Our Crypto app also experienced robust growth last quarter. Approved accounts increased 40% since Q4, resulting in over 6,400 users on the platform. The growth is important for a couple of reasons. First, volumes will increase as we introduce more users, which is directly tied to the revenue generation of this business. And second, we anticipate migrating these users into tZERO markets, our retail broker-dealer, once it receives regulatory approval. This will enable our users to trade cryptocurrencies, security tokens and even trade traditional stocks, making it the first regulated platform to offer this.

Slide 41. As we laid out on our last call, we have 3 overarching priorities this year: list more assets on the ATS, enhance the liquidity on the ATS, and improve the overall investor experience.

Slide 42. As we mentioned previously, we are in discussions with a growing number of prospective issuers that are interested in raising capital and trading on our ATS. These 200-plus issuers are diverse in nature, spanning real estate, financial products, technology, sports and many other industries. As you can see, the two largest categories in our pipeline are real estate and private companies. Both of these assets are illiquid and inaccessible by most investors, which makes them an attractive candidate for our ATS.

Slide 43. Overall, we have seen some delays related to COVID on the asset front. Several issuers want to wait until market volatility subsides before trading. This is a transitory headwind that will resolve itself, I hope, in the near future. We also completed the tech integration of our third token, which we anticipate will trade soon. Lastly, I'm pleased that we completed the integration of the Tezos blockchain into our open-source digital security protocol. Tezos allows for quicker transaction times, making it a solid choice for issuers. In fact, several issuers, including River Plaza, have requested to tokenize on their blockchain.

Looking ahead at our roadmap, we will be primarily focused on integrating additional securities and supporting third-party security token protocols, which would enable us to trade securities that were issued by other platforms.

Slide 44. Our second objective is to improve liquidity on our ATS. As Jonathan previously mentioned, the OSTKO digital dividend has been a key achievement for tZERO and one that has already begun serving as a catalyst for greater adoption on our platform. The

dividend has resulted in an increase in investor onboarding on Dino and has generated interest from numerous broker-dealers who are interested in subscribing to the ATS.

I also note that we completed tech integration for our second broker-dealer, ChoiceTrade, which is awaiting regulatory approval to go live. For our liquidity roadmap, we are focused on ensuring that the distribution of OSTKO goes smoothly. That's our top priority, and getting as many broker-dealers as possible subscribed to the ATS. We're also working closely with regulators on our retail broker-dealer and BSTX, with decisions on both expected this quarter. But you can never be sure of a timeline with regulators.

Slide 45. Our third priority is to enhance the investor experience across the web and mobile platforms. Recently, we improved the investor onboarding process to allow for bulk and auto approvals of new accounts. We also created a newer, more efficient onboarding experience for prospective broker-dealers, effectively removing as much friction as possible from accessing the tZERO ATS.

On the Crypto app, we recently added a tiered membership model, allowing investors to earn their way to higher purchasing limits. Looking ahead, we are working to merge the crypto and web platforms which, as I mentioned earlier, would enable us to trade traditional and digital assets all on one platform.

Slide 46. Overall, we had a busy and productive start to 2020 and believe the achievements we made strategically position us for the year ahead. Jonathan.

Jonathan E. Johnson *Overstock.com, Inc.* - CEO and President of Medici Ventures

Thanks, Saum. I like what you're doing at tZERO. Keep at it.

Next slide. Let me now discuss some notable events that have happened at Medici Ventures.

Slide 48, please. This slide shows our family of blockchain companies with several highlighted which are helping to solve problems the pandemic has brought into the spotlight.

Next slide. I'll start with a Medici Ventures foundational pillar: identity. Self-sovereign identity is your ability to prove and control an immutable record of your own identity and credentials through blockchain technology and to be able to trust that same information provided by others. Two of our companies in the identity space, Evernym and Vital Chain, are working on projects to develop what are called immunity passports to help stop the virus. Evernym, along with 60 other organizations, is working to develop a digital certificate so users can prove and request proof from others that they've been tested positive for antibodies or have received a vaccination once one becomes available. These digital certificates would be issued by health care institutions but controlled by users. Being able to provide trustworthy and private immunity validation will help individuals return to everyday life.

Vital Chain has pivoted to develop a health record digital validation tool. It has built a consortium interested in a COVID-19 antibody validation tool. It is aggressively working with Medici Ventures developers to have an MVP within 30 days for northeastern Ohio, with plans for a limited national rollout in 60 days. It's really exciting work.

Next slide. Voting is another topic being discussed a lot right now. Always top of mind in an election year, the pandemic has voting in the spotlight. Mobile voting is the answer, especially because blockchain technology enables anonymous, safe and secure mobile voting. Yes, there is some skepticism about the reliability and safety of mobile voting applications, but the reality is that mobile voting solutions continue to evolve and improve. Many are being voluntarily tested by third parties to identify and address weaknesses and vulnerability. Public sentiment is also shifting, with recent polls showing voters' increased trust in remote voting methods.

Two of our blockchain companies, Voatz and Votem, have developed mobile voting applications using blockchain technology. They are successfully demonstrating the safety, reliability and effectiveness of these apps via live elections across the country. Just last weekend, Voatz successfully conducted the Utah State GOP pre-primary convention, where 3,500 delegates cast votes remotely. Voatz has now completed more than 60 safe and secure elections. Votem has also had some recent successes. The pandemic has highlighted issues with traditional voting methods. We believe mobile voting via blockchain technology is the solution. Safe, secure, anonymous and



reliable.

Next slide. And another hot topic in the current landscape is supply chain optimization. The tracking and monitoring of food and supplies is more important than ever. Some of our blockchain companies can help solve these problems using blockchain technology. As previously announced, GrainChain closed on its \$8.2 million Series A funding round in early March, led by Medici Ventures. This capital allows GrainChain to continue building and scaling. And speaking of building and scaling, the GrainChain network, which allows for faster payments between farmers and buyers and tracking of goods, now trades 24 different dry grain commodities and has nearly 3,000 members in the United States, Mexico and Honduras.

GrainChain is collaborating with another of our blockchain companies, Symbiont. GrainChain will now use Symbiont's Assembly enterprise blockchain network to improve platform performance and privacy features. This is a great example of Medici Ventures' keiretsu model in action: actively encouraging and assisting our companies in finding synergies through collaboration.

Just this week, GrainChain was selected as a finalist by Fast Company in the Food category of its 2020 World Changing Ideas Awards for the work GrainChain is doing to improve the world's food supply.

Our blockchain companies are working to solve the real problems society is facing, problems exacerbated and highlighted by the pandemic, for which blockchain technology can alleviate.

Slide 52. Before concluding our prepared statements, some closing remarks. We do not give, and we are not giving, guidance. However, considering the unique COVID-19 situation, we are sharing more information than is typical in order to give our shareholders more insight into our operations and performance.

April sales are up over 120% year-over-year. New customer growth has increased 65% since the beginning of the year. Early indicators suggest May performance will also come in stronger than expected, though not at April's levels. Beyond that, there are too many variables at play to know whether June will outperform seasonal trends. We do expect some of the increased online adoption to stick.

Slide 53. We've made a lot of progress thus far in 2020 across all our businesses. We are executing on our initiatives. Our performance began accelerating even before the stay-at-home mandate. We are riding with that tailwind, but stronger than ever. I am confident Overstock Retail will achieve its goal of sustainable, profitable growth in short order. With that, Alexis, let's take some questions.

QUESTIONS AND ANSWERS

Alexis Callahan *Overstock.com, Inc.* - Director of IR

Thank you, Jonathan. We've received a number of questions in advance of our call, and we'll address a few of those first. We'll then open up the line for live questions.

Our first question is related to our dividend and asks whether we intend to continue issuing digital dividends in the future. Jonathan, can you please take this?

Jonathan E. Johnson *Overstock.com, Inc.* - CEO and President of Medici Ventures

Yes. We do not have current plans to issue additional dividends, but we certainly have the ability to issue dividends in the future at our discretion.

Alexis Callahan *Overstock.com, Inc.* - Director of IR

Our next question pertains to retail and says, "Given the sudden acceleration growth, what strains has this placed on the organization?" Dave, can you please take this one?



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

Yes. Thanks, Alexis. As mentioned in our prepared remarks, our customer care team was not staffed to manage the significant increase in sales. We've hired more customer support agents, streamlined self-serve automation services and increased communication to our customers. Our carriers have been strained with increased packages and their prioritization of personal protective equipment has prevented them from providing tracking for all packages leading to some customer frustration. Our partners have also been adjusting to statewide closures. We have millions of products on our website and as some sell through, others pick up. All that said, our platform has not slowed. Our technology is scalable. The majority of our packages are arriving on or before the estimated delivery date. I couldn't be more pleased with the execution from the whole team while working from home.

Alexis Callahan *Overstock.com, Inc. - Director of IR*

Thanks, Dave. Our next question asks, when can we expect to see more tokens trading on the tZERO platform? Saum, can you please take this one?

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

Sure. As I said, we had actually a couple of issuers close, and we had done diligence, and were ready to trade. But because of the market conditions, they asked that we wait for things to stabilize before they trade. So a lot of it depends on the conditions we're in on coronavirus, but we're hopeful that we could -- get through that, and hopefully later this quarter to early next quarter, have additional assets trading.

Alexis Callahan *Overstock.com, Inc. - Director of IR*

Thanks, Saum. Towanda, we're ready to take our first question. Please open up the line.

Operator

Our first question comes from Thomas Forte, D.A. Davidson.

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

Great. So first off, I wanted to congratulate you, Jonathan. So I'll use a football reference. You took a lot of initiatives from the red zone to the end zone. So I think you've done an amazing job and deserve a lot of credit, and then welcome Adrienne to the Overstock story.

So a number of my questions you've already answered. But the first one I had was can you discuss how historically Overstock's Retail business has been countercyclical?

Jonathan E. Johnson *Overstock.com, Inc. - CEO and President of Medici Ventures*

Yes. And thank you, Tom. I appreciate the kind words at the beginning. Let's remember we are a low-priced operator. We sell great products at a low price and so historically, in times where people have been pinching pennies, they've looked for deals. That's who we are. We provide great deals. And so in the past, when the economy has gone a little south, we've been able to do well in those times. So you're right, we have been countercyclical historically.

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

And then one follow-up question. So if I understand you correctly, is the gating factor on adoption for blockchain voting, so Voatz and Votem. Is the gating factor just getting approval from local governments? Or is there a second gating factor in customer adoption?

Jonathan E. Johnson *Overstock.com, Inc. - CEO and President of Medici Ventures*

The gating factor will be local county clerks and Secretaries of State signing up for this. Voting is a complicated and politicized industry and there are 3 large incumbents that dominate the market. The customers, like I said, are County Clerks or Secretaries of State offices with limited budgets for new technology. And incumbent politicians are leery of anything they think might keep them from being reelected.



So I think the real question is what does it take for a paradigm shift? And perhaps, it is the global pandemic that makes in-person voting hard, undesirable or impossible. And I will say that as a result of the pandemic, Voatz has been receiving a lot of inbound interest for its remote voting solution over the last 6 weeks and is currently in the process of executing on some of those opportunities.

Operator

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

Bradley G. Safalow PAA Research LLC - Founder & CEO

Congratulations on the excellent execution in a really dynamic period. First question is on gross margins. Obviously, you've had several quarters now of consecutive gross margin expansion. How are you guys thinking about the structural level of gross margins for the business on the retail side?

Jonathan E. Johnson Overstock.com, Inc. - CEO and President of Medici Ventures

Dave, why don't I have you take the first crack at that?

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

You bet, Jonathan. Thanks, Brad. One of the key contributors, and Adrienne mentioned this, is the improved freight rates that go into our first cost of our products. As we continue to expand our footprint and preposition our products closer to our customers, we eliminate the number of Zone 6 through Zone 8 or those long shipping costs that add up. And as we've been able to bring products and preposition them closer to customers, we've been able to significantly reduce those costs and improve our margins.

Bradley G. Safalow PAA Research LLC - Founder & CEO

Okay. And then as we think about -- you guys, and I don't think this is well understood by anyone in the investment community, but for a while now, you've had tremendous organic tailwinds in terms of search traffic. I can see now that you've had a very strong uptick in paid traffic, but you certainly have a lot that you can capitalize on just from what's going on in the industry and what you have organically. But what I want to understand is, given this uptick in demand, how are you guys approaching marketing in terms of level of spend, channels, customer acquisition?

Jonathan E. Johnson Overstock.com, Inc. - CEO and President of Medici Ventures

Dave, I know you've been all over this. Do you want to take this one, too?

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

Sure. Happy to, Jonathan. Thanks for the question, Brad. The marketing model, I will say, has been challenging to understand for our marketing team as we've focused in on so many of the changing dynamics. It has been nice to have a solid tailwind with our organic search and organic traffic coming in. As a team, we spend a lot of time, we have a lot of engineers focused on optimization of our organic search and organic traffic.

As we dial in our models, we did see a bit of a reduction in cost of a new customer. So customer acquisition costs started to dip slightly, and this was obviously going to happen as many of the brick-and-mortars were backing off. Why would you acquire customers to send to closed doors? And we took advantage of that, increased some of our spend and have done some opportunistic spending to acquire more customers at a lower cost, as you could see from what Jonathan showed in a chart earlier with the nearly 250-ish, 249% growth in new customers. So we've been thoughtfully aggressive, but continue to monitor every day as the situation rolls forward.

Bradley G. Safalow PAA Research LLC - Founder & CEO

Okay. And last question for me. How has the spend level differed between, let's say, existing customers, Club O members and what you're seeing from new customers?

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

Jonathan, I don't know if you'd like me to take that or not?



Jonathan E. Johnson *Overstock.com, Inc. - CEO and President of Medici Ventures*

Please, please.

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

Brad, again, another great question. We watch this very closely. We balance our marketing mix model between acquisition of new customers and our existing customers. I will tell you that over the last 6 to 8-ish weeks, our Club O memberships have grown by 35%. So we've seen a significant growth there.

Now you saw from the charts earlier that even in April, our revenues were growing -- our sales were growing upwards of 120%. So not pacing as quickly with new customers attaching themselves to Club O, as expected. Club O is seeing some value as the customer continues to repeat and purchase with us and sees the value of what Club O brings from the 5% rewards, from their free returns, for in-store credit. So many advantages to having Club O there. But the balance between those two, that should give you some indication. They're both growing existing customers and repeat rates as well as new customers significantly growing, especially in April.

Operator

We have a follow-up from Thomas Forte.

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

Great. So Saum talked about your current backlog or current situation with new issuance for the ATS. Can you give us a reminder on how tZERO monetizes additional tokens that are listed on the ATS?

Jonathan E. Johnson *Overstock.com, Inc. - CEO and President of Medici Ventures*

Saum, I'll let you take that one.

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

Yes, sure. So the way we monetize is if it's a new offering, we today charge a fee to tokenize the assets and then distribute them to the existing holders, and then once they actually lift their security for secondary trading on our ATS, there's a fee for listing it, a lot like an exchange listing fee. And that's an annual recurring fee, as well as transaction fees that are charged to the broker-dealers.

Those are the 3 ways. As soon as we're approved as a retail broker-dealer, which we're hoping to get a decision, this quarter, we will be able to start charging a percentage of capital raised - kind of like a placement fee. And so that will be an additional revenue stream for new assets.

Operator

Thank you. I'm showing no further questions in the queue. I would now like to turn the call over to Jonathan Johnson.

Jonathan E. Johnson *Overstock.com, Inc. - CEO and President of Medici Ventures*

I want to thank our investors for listening in today, whether it's live or on a recording. I know we haven't been able to address all your questions today. We had a lot to present. So I've asked Alexis to schedule a virtual Investors' Day sometime in May. Look for details on that in the coming weeks. Until we talk again, stay safe and stay healthy. Thanks so much.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation. You may now disconnect. Everyone, have a wonderful day.

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