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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Overstock.com Investor Day. (Operator Instructions) Please be advised that today's conference is being recorded.

Now it's my pleasure to turn the call to Alexis Callahan.

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

Thank you, Carmen. Good afternoon, and welcome to our virtual investor event conference call. Joining me today are Jonathan Johnson, CEO of Overstock and President of Medici Ventures; Adrienne 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 discussion and our responses to your questions reflect management's views as of today, June 10, 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 Form 10-Q for Q1 2020, and our subsequent filings with the SEC. 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.

Please note that today's presentation is available for download on our Investor Relations website, and our summary slide contains instructions for asking questions during our Q&A session.

With that, let me turn the call over to you, Jonathan.



Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

Thank you, Alexis. And good afternoon to all listening. I've been looking forward to today's presentation. One of my CEO objectives for the year is to communicate better who we are as a company to employees, shareholders and other stakeholders. Today's presentation is an effort to do just that for shareholders, potential shareholders and the analysts who cover Overstock. We've set aside 2 full hours for this call. Our intent is to spend the first hour walking through a presentation we've prepared and then spend the second hour taking live Q&A. You can see our agenda on the screen. I'll begin by providing a few corporate updates, including an update on the impact of COVID-19 on the business. We'll then discuss Overstock Retail, tZERO and our Medici Ventures companies. After that, we'll open it up for questions. For those familiar with the company, some, but not all of this presentation will be familiar to you as we want to make sure those who are new or returning to Overstock get a good picture of who we are today.

Next slide. We shared this slide with you on our last earnings call, but it's worth reviewing again, particularly for those who are new to Overstock. We're fortunate as an organization that we've been able to weather this pandemic well. Other than in our fulfillment centers where crews worked socially distanced and in ships, we've been working from home since mid-March, and it's worked well for us. As I mentioned previously, we conducted a trial run of work from home in early March to ensure our systems could function, and I'm glad we did. There have been minimal disruptions to our business. We've remained productive as we continue to operate remotely. Overstock hasn't made any layoffs in the wake of all this. Instead, we've been hiring to support increased sales, particularly in customer care, where we've hired several hundred new agents. And speaking of sales, April and May sales were up over 120% year-over-year, which is simply phenomenal.

The Overstock business model is well suited to operate in the current environment. Our model scales so effectively and cost efficiently because of our focus on technology and automation embedded in our systems. Our primary offerings, home furnishings, are in demand. Home goods are one of the most relevant categories in the current environment. I've heard someone say recently home furnishings are no longer a discretionary purchase. I hope she's right. Because we are a pure-play e-commerce retailer, customers can buy what they need from us safely in their homes, always accessible. Our 20-plus years of long-standing partner-supplier relationships and our drop-ship model have allowed us to be nimble and to diversify our geographic and sourcing risks. As you'll see on this slide, we have over 3,400 partner suppliers shipping from over 4,600 drop-ship facilities. Importantly, Overstock's value proposition is particularly attractive during uncertain financial times. We offer great products at great prices.

Next slide. Even though our focus and business model make us uniquely suited to help solve customer problems at this time, the reality is we have faced some challenges over the past 3 months. Our surging sales pushed us beyond our capacity to handle all customer care needs. And while customer service contacts as a percentage of sales has decreased, the absolute volume has gone up. We responded by hiring, streamlining our customer service channels and launching automation and self-service initiatives. That said, we're still taking too long to respond to customers who are reaching out. We are getting to all customers within one day and hope that hiring of hundreds of customer service agents over the past several weeks will get us back to our normal standard of response soon. Fulfillment also lagged, and we and our partners adjusted to working with crews in shifts under social distancing mandates. And carrier capacity issues contributed to delays and decline in tracking, which caused frustration for partners and customers. Going forward, there is still uncertainty. We don't know what we don't know, and there's no precedent for what we're experiencing. We don't know exactly what we'll face in terms of longer-term challenges, and many factors could potentially impact us. While we certainly are susceptible to any number of market-wide risk factors, on balance, I think Overstock can and will react well to shifting conditions.

Next slide. We are pleased to have successfully distributed our digital dividend on May 19. I'd like to take a minute to talk about what this dividend is and why it's valuable. First, this is not a cryptocurrency. It's a preferred share of stock that trades on the tZERO alternative trading system under the symbol OSTKO. There's an open market for OSTKO, and so these shares have real value. Yesterday, they closed at \$13.10 per share. Second, these shares pay a cash dividend. We've paid a \$0.16 per share dividend in each of the last 3 years and the expectation is we will continue to pay a cash dividend this year. Third, this dividend distribution has increased participation on the tZERO ATS, as investors look to buy and sell shares of OSTKO and broker-dealers look to execute trades on behalf of their clients. Saum will give more and exciting details later. Recently, 2 new broker-dealers subscribed to the tZERO ATS. We expect more to subscribe, and this increased participation and platform adoption should help the tZERO trading ecosystem to further develop. And as development advances, so should the value of that ecosystem. As an 80% majority owner of tZERO, Overstock, and by extension its shareholders, stand to benefit from that increase in value.

I'll also address something that many of you have asked about: where OSTKO shares can trade. Per the terms of the preferred Series A-1 certificate of designation, terms our shareholders voted to approve in February, shares of OSTKO are required to trade exclusively on the tZERO platform and

nowhere else. We are aware that there has been trading activity outside of the tZERO platform. This is in direct violation of the securities terms, and we are considering how best to remedy this.

Next slide, some corporate housekeeping. First, our prospectus supplement filings. We filed one in early April to reflect the loss of our WKSJ status and to keep our ATM in place. Now that our share price has recovered considerably, we are once again eligible to re-establish our WKSJ status, which is great. We will be filing a new S-3 in the next few weeks to reflect that. We'll also file to re-establish our ATM under our regained WKSJ status as a good housekeeping measure. Speaking of the ATM, I want to explicitly mention that we have not used our ATM in 2020 and we don't have any current plans to use it at today's prices. Our balance sheet is strong, as strong as it has been in years. On the regulatory front, we received a new subpoena from the SEC on [May 27] (corrected by company after the call), requesting specific tZERO ATS subscription and consulting agreements and its written supervisory procedures. We supplied the requested documentation on June 5, and we will keep you apprised of any material updates.

Next slide. During our fourth quarter earnings call, I mentioned the righting of the ship. We identified specific company initiatives, distractions to eliminate, and objectives and key results against which we could measure our progress. We have righted the ship and we are executing. This ship is sailing, even in the recent choppy waters. We are resilient and we are well positioned to achieve Overstock's Retail's goal of sustainable, profitable growth. Let me remind you that Overstock is, at its core, a technology company. We are cutting-edge in online home furnishings 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 on our technology foundation, the wind is in our sails.

Next slide. And with that, let's dive into business updates. Next slide. We'll start with the Overstock Retail business.

Go to Slide 11. I want to highlight our senior executive leadership teams. I'm proud of the exceptional team we now have in place and their deep expertise in each of their areas. Everyone you see here knows retail. And I'd like to highlight some additions over the past 18 months. First, I'm back. I was the President of Overstock from 2008 to 2013. After nearly 4 years heading Medici Ventures, I was appointed Overstock CEO in August of last year. I'm thrilled to be at the helm and bringing focus to the Overstock business. Next, Dave is back. He returned to Overstock in October 2018 and is the perfect person to head up Overstock Retail. I should note that Dave and I worked together for several years when the company first became profitable in 2009. We're both pleased to be back in the saddle, riding together and executing on our plan to return Overstock Retail to sustainable profitable growth. Next, Adrienne Lee, our new CFO, joined us in March. Adrienne was previously the CFO of Hertz's North American rental car business and prior to that led financial planning and analysis for Best Buy's e-commerce business. She is a fantastic addition to our team and has hit the ground running, adding value and leadership right out of the blocks.

Skipping to Mark Baker, our Chief Product Officer. He was promoted to this position in February. Since he joined Overstock in 2011, Mark and his teams have been responsible for building many of the incredible customer- and partner-facing products and platforms that have made Overstock a technology leader. Next, Krista Matthews, our Chief Customer Officer, was appointed to that role in August of 2019. Krista joined Overstock in October 2017 after spending nearly a decade at Target, where she was focused on e-commerce and brick-and-mortar merchandising. And Joel Weight, our Chief Technology Officer who we appointed to this position in February, is a 9-year veteran of Overstock, most recently serving alongside me as COO and CTO of Medici Ventures. Joel is a highly skilled technologist with a passion for building cutting-edge technology. I'm excited to have him help us return to our roots as the innovative e-commerce leader we've been known for throughout the years. With Overstock veterans Carter Lee, Megan Tuohig, Ron Hilton and JP Knab, we have assembled top talent that know the online retail real estate. This is my leadership team, and it's a great team, one that can remain focused and execute.

Next slide. With that, I'm going to turn it to Dave.

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

Thanks, Jonathan. Now on to our business landscape. Overstock is in a large and growing market that up until recently has not seen significant online migration compared to other categories. Home furnishings is a \$300 billion market and growing at 16% annually before the retail landscape shifted due to COVID-19. We're proud to reiterate that we are the fifth largest online home furnishings brand, and with only a 23% online penetration rate prior to the pandemic hitting, we continue to operate in a market with significant growth potential. As customers become increasingly comfortable buying online, our 20 years of experience in the space enables us to be well positioned to capture online migration market share.

Next slide. Now as mentioned earlier, the retail industry landscape is shifting significantly. Industry-wide, it is estimated that retail sales declined by 30% during the peak of the pandemic. Traditional brick-and-mortar retail sales are estimated to have declined by 50% as consumers shifted to buying online. E-commerce sales are estimated to benefit from this shift, growing approximately 25% to 30% during the pandemic.

(technical difficulty)

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

We may have lost Dave. Okay. Alexis, remind me what slide we're on, please.

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

We're on Slide 13.

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

Okay. Let me pick this up until Dave comes back.

These changes, these are the meaningful shifts as consumers become increasingly comfortable and accustomed to making purchases online. These forces combine to advance us several years forward in terms of online penetration. And the sizable shift from brick-and-mortar to online in the home furnishings market has gone from 23% last year to an estimated a 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 this 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 certainly stick. I should note that many of you have seen these numbers already. We are reiterating them here for the benefit of those who are less familiar with Overstock and the market in which we operate. These statistics represent the peak of the pandemic as triangulated from many sources. Our team closely watches the market estimates that are published periodically. We are as eager as you to see updated information when it becomes available.

Let's go to Slide 14. And Dave...

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

I'm back.

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

When Dave joins, let me know, and we'll get back to you presenting.

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

I'm back, Jonathan. I'm back.

Slide 14. Overstock is in a unique position to capture this online migration given our value proposition and expertise in the home goods space. This chart illustrates the relative position of the top 5 online home goods retailers as it relates to meeting customer needs. As part of our overall strategy to create dream homes for all, Overstock is focused on delivering smart value, where quality and style cost less. To be clear, smart value means high quality for the price. We are not, nor do we endeavor, to be an everyday low price leader. When our customers do buy however, we



always want to win on final price, which is promotionally driven. Not only do shoppers recognize our home goods expertise, they also value that we provide them with the most ways to save on quality home goods. This includes more annual sale events than any other major retailer, competitive coupons and discounts, free shipping, attractive financing options plus a variety of perks for our Club O members. We aim to achieve an optimal balance between price and value, style and inspiration. Particularly in a down economy, smart value resonates more than ever.

Next slide. And it's clear that our smart value proposition resonates with our customers. We truly listen to our customers and appreciate what they have to say. This slide shows select customer feedback illustrating this fact. You can read for yourself the words on the page, but let me highlight the key points. You can see how Overstock fills the need as consumer shopping behavior shifts due to the pandemic. You can see that we get credit for offering the best price for the quality and how we are the best value for home goods. I should note that this positive customer feedback, recognizing Overstock's smart value proposition, is from both repeat customers and first-time customers, an important point to note, particularly as we have seen a significant uptick in new customers. We should also note that the vast majority of customer feedback is positive. Our customers are satisfied.

Next slide. Overstock's strong core competencies plus our renewed, focused strategy position us well to achieve our goal of realizing sustainable, profitable growth. And we'll expand on these elements as we continue on in this discussion. We talked about our leadership team earlier on. This team understands our core competencies, what they have been, and what they still are, and their value. This team is all about a focused strategy. Importantly, this team knows how to execute to allow us to achieve our goal of sustainable, profitable growth. We'll now dive deeper into each of these areas.

Next slide. Now let's dive into some of our key core competencies. First, on our customers. We know who they are, what they want and how to reach them. We have 45 million visits on average each month, and that continues to trend upward. Our traffic continues to increase, and so does our active customer count. Our Club O program is a key component of our customer strategy. We'll speak in more detail about Club O in a minute. Our customers want more self-service. With increased sales due to the pandemic, our product teams ramped up development of customer self-service tools, such as improved chatbot capabilities and the ability to update their orders on our website instead of through a phone call. These types of innovations make it easier and faster for the customer and also reduce contacts to customer care by nearly 20%. Our e-mail program is one of our most impactful marketing channels. One-to-one personalization, such as custom product recommendation, have demonstrated a 5% increase in sales.

Next, you'll see we have built an efficient and innovative technology platform over our 20-year history. Our machine learning team has been working on cutting-edge research applicable to the retail space, including deep learning, computer vision, reinforcement learning and object detection, and applying these to our company initiatives. We're realizing SEO gains. I'll speak about SEO momentarily. We're proud of how our technology stack easily handled an increased visit volume of nearly 300% as traffic increased due to the shifting online retail landscape.

And here in the third column, you'll see that our business model is highly scalable. 94% of our orders are fulfilled by 3,400 partners through their 4,600 fulfillment centers, where Overstock serves as a point of purchase and partners ship products directly to customers. Further, our fulfillment model and optimization of our own distribution network allows for efficient delivery and flexible inventory management, all this to say that our model is highly scalable and able to handle the recent extreme surge in sales. Rather than being limited to inventory from only our fulfillment centers, we were able to offer an abundance of inventory, over 7 million products from our 3,400 partners and from 4,600 fulfillment centers. We were able to keep up with a doubling of sales without running out of inventory or being constrained by logistics limitations. There are not many business models that could withstand 120% growth over 2 months without major issues. We did. And it's not just theory. It's practice.

Next slide. Many of you have been asking about Club O. Here's a brief overview of the health of the program. Our Club O members account for 24% of sales, and each Club O member spends \$514 more on average in a year than non-members. It's important to note that we are not trying to be like Amazon Prime or Costco membership. Customer visit frequency in home furnishings is not like grocery, mass retailers or the club warehouses. Club O is a unique, cost-effective program specifically designed and tailored for savvy shoppers. Club O membership isn't designed to provide access to Overstock's products. It aligns to our savvy shopper target customer preferences. Club O features 5% rewards on every purchase, free returns for in-store credit, a price match guarantee, rewards for reviews and more. Again, our Club O members account for a healthy 24% of all sales, and active paid memberships are increasing.

Next slide. Similarly, many of you have asked about SEO. We are excited to share that traffic due to search engine optimization, or SEO, grew by 62% year-over-year. In early 2017, Google updated its algorithms and Overstock was hit by an unprecedented slide in our organic search program, lowering our top 3 rankings by more than 80% and kicking off some very difficult years, as you can see in the chart on the left. While we were never able to get specific guidance from Google on why, we've done a lot of work to make sure our site directs Google to best understand our strong home content and position. We continue to release new content and enhance our site experience. This has created a consistent recovery and one that will be less prone to algorithm volatility. Overstock also used this as an opportunity to become less reliant on dollars from organic search by advancing programs in other areas. The changes we have made over the past few years well positioned us to be top of Google search as people went online to find out how to furnish their home offices, home gyms, home recreation or simply create a more cozy home living space during stay-at-home periods during COVID-19. In short, the work we've done in search engine optimization has resulted in traffic increasing 62% year-over-year, as you can see in the chart on the right.

Next slide. Broadly, Overstock's mission is to create dream homes for all. We've consolidated that vision and focused onto a single page. We know that in order to achieve sustainable, profitable growth, we must focus on serving our customers' highest needs. We know who these customers are, savvy shoppers and reluctant refresher. 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. And I want to point your attention to our enablers as well. We maintain focus by leveraging an objective and key results process across the company to provide vision and accountability. Our OKR framework not only provides us with a disciplined focus, but it also allows us to say no to things outside our strategic focus.

Next slide. We've done a great deal of customer research, and our findings continue to drive our focus. Two customer segments in particular, as previously mentioned, play to our strengths: the savvy shopper and the reluctant refresher. They together represent 40% of the home furnishings market or roughly \$120 billion. This is our real point of differentiation. When selecting these strategic market segments for Overstock, we considered the opportunity size, industry space and our existing customer alignment to our brand. While many of the other pure-play home goods retailers focus more on the inspirational segments, such as home furnishing enthusiasts, we leaned into the white space of the two customer segments who already over-index for shopping with Overstock. They're 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. So how are we serving these customers? You can see here how our 2020 initiatives all align to the 3 brand pillars. I'll point your attention to just a couple of items here. Under our core benefit pillar of smart value, we turned on a marketing allowance program which allows us greater flexibility to give customers the kinds of deals they want whether it's through promotional site sales or coupons. And over to the easy delivery and support pillar, you'll see that we launched free shipping on all products in response to COVID-19. This not only makes for an incredible value, but free shipping on everything is also highly correlated to an increased likelihood to shop, which just further demonstrates how we continue to align customer benefits with business goals.

Next slide. We've seen a meaningful increase in new visitors and new customers this year, particularly in the second quarter. You can see that new customer growth in April and May increased over 230% versus the year-ago period. These new customers demographically mirror our existing customer base, a demographic we know how to retain. Our brand pillars and value proposition resonate with them, evidenced by demand being almost entirely for home furnishings, products such as area rugs, office furniture, patio, beds and other home-related items. These are our bread-and-butter products and these are exactly what people are buying. As a percentage of sales, home goods now represent nearly 92% of the total. We are encouraged to see new customers finding us for our core home furnishings products. 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 and comfort of their own homes.

I'll now hand it over to Adriane, our Chief Financial Officer, to discuss the impact all of this is having on our results.



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

Thank you, Dave. Slide 24, please. The impact that current market dynamics have had on the Overstock Retail performance has been meaningful. This chart illustrates sales growth as compared to a year ago. We have intentionally segmented the time period to show the impact of our operational improvements versus what I'll call the "stay at home mandate related" tailwind. As you can see, we experienced sequential improvement from 2019 prior to stay-at-home mandates driven by our increased focus and go-to-market improvements. From mid-March through March 31, our sales grew in our key home furnishing categories as people focused on making their homes more functional. While our top category of area rugs grew 20%, we saw over 100% growth in office furniture, outdoor play equipment and exercise equipment. That growth accelerated as the stay-at-home mandate reached the entire country around April 1. Since that time, we have continued to see outpaced growth in our key home furnishings categories, and as a result, year-over-year sales in April and May increased over 120%. It's important to reiterate that we're already demonstrating sequential improvements prior to stay-at-home mandates, which is both meaningful and reflects our commitment to growth. The mandates and resulting customer habits created a tailwind that accelerated our growth trajectory.

Next slide. As we continue to reiterate, our goal is to achieve sustainable, profitable growth. We will emphasize the growth component of that equation here. We intend to grow the top line year-over-year, and this starts with us curtailing the top line declines experienced throughout 2019. As Dave mentioned earlier, the online furnishings market was historically growing in the low to mid-double digits annually, and our goal is to achieve revenue growth above industry. While the first quarter came in at a decrease of 6% year-over-year, it is important to again highlight the sequential improvement and momentum we were already generating prior to stay-at-home mandates. Given our results in April and May of 120% sales growth, we expect to post significant year-over-year top line improvement in the second quarter.

Next slide. As part of our path to profitability, we are focused on improving our historic margin performance as we grow the top line. As you can see from this chart, we have made steady progress in improving gross margins over the past several quarters and into the first quarter of 2020. First quarter gross margin came in at 21.9%, which represents a nearly 200 basis point improvement year-over-year and is a record high over the last 20 quarters. This increase is the result of focused initiatives that reduced shipping rates, reduced net return costs, and reduced first cost on products due to recently deployed automation. We will look to maintain recent margin trends as we continue our focus on generating operational efficiencies and continue to sharpen our pricing and promotional strategies.

Next slide. And these focused initiatives ultimately will allow us to achieve sustainable bottom line margin expansion. In Q1, we posted an adjusted EBITDA loss of \$1.9 million, but I'd like to point out that, that represented a 24% improvement year-over-year. And while not yet in positive territory, the team continues to focus on our customer experience, promotional model improvements and execute against disciplined and efficient spending. As you can see on the chart, history proves we were able to grow the top line and maintain margins albeit inconsistently. We have a laser-focused strategy now. And with Jonathan as CEO and a highly experienced leadership team, we know how to execute and return Overstock Retail to profitability. First quarter 2020 results illustrated both progress and execution with our revenue trend improving and expanding margins.

Next slide. Our financial goals for Overstock Retail are to outpace the industry on the top line, creating operating leverage to ultimately deliver expanded adjusted EBITDA margins and positive cash flow.

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

Thank you, Adrienne. If I may, let me say that we know the industry we're in. We chose to play in an industry we know has a strong growth trajectory, and we are moving into the white space that no other brand fills. We've differentiated because we know our customers and we are aligning our value proposition to their needs. We have proof from their feedback that we're giving them what they want. And with a strong new leadership team and renewed focus, we're building upon our 20 years of experience in forging and fostering strong partner relationships and technology. Because of this, we are uniquely positioned in the market to achieve sustainable, profitable growth in Overstock Retail.

Next slide. Let's now turn to Medici Ventures to discuss the progress being made there. As we typically do, let's begin by discussing tZERO. tZERO's CEO, Saum Noursalehi, will talk about tZERO's business, recent progress and priorities. Next slide.



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

Thank you, Jonathan, and good afternoon, everyone. I'd like to begin by providing an overview of tZERO, specifically the problem we are solving, the advantages of our platform and the broader market opportunity. I will then dive into some of our recent accomplishments and priorities for the remainder of the year.

Next slide. The overarching problem we are addressing is the fact that outside of publicly traded companies, most assets are illiquid and inaccessible to most investors.

Next slide. In addition to the illiquid nature of most private assets, ownership records are opaque and difficult to verify, while manual back-office processes tend to be expensive and time-consuming.

Next slide. How does tZERO address this challenge? We help private companies raise capital, digitally represent ownership and trade on a regulated platform.

Next slide. Our platform offers several advantages. Today, the biggest advantages are we offer our ability to provide liquidity to issuers, allowing people to invest in high-quality securities that they wouldn't otherwise have access to, and we can also automate compliance through the use of smart contract technology. Looking ahead, as we make progress from a technology and regulatory standpoint, we will be able to provide near-instant settlement of securities and reduce the cost of transferring value through automation.

Next slide. Our market opportunity is robust. According to the SEC, private offerings such as Reg A and Reg B accounted for \$2.7 trillion in 2019, or 69% of new capital raised. These are the types of offerings that would be ideal for our platform. We provided this slide on the last earnings call, but I wanted to reiterate the current makeup of our pipeline of over 200 prospective issuers. The largest category of prospects is in real estate assets, which makes sense given they tend to be illiquid and generally do not qualify to trade on exchanges. Nonetheless, these are quality assets that average investors wouldn't normally be able to invest in. We are also in discussions with a number of private companies that have deep cap tables and are looking to offer their investors liquidity optionality. Despite some slowdown of capital raises as a result of COVID-19, we are encouraged by our progress and hope to have announcements in the near future.

Next slide. This slide illustrates how we monetize our platform. There are 3 buckets: capital formation, trading and licensing fees. On capital formation, we make money on digitizing assets and, upon receiving regulatory approval for our broker-dealers, charging a percentage of the capital raised. For trading, we charge a recurring annual fee for listing on the ATS as well as as typical trading commission fees. For licensing, since our focus is primarily to grow the ecosystem, we are mostly giving our technology away for free. Longer term, when it makes sense, we plan to charge licensing fees for technology used by issuers and market participants.

Next slide. We made progress this year. The most notable achievement is the successful distribution of the Overstock digital dividend. While we only distributed the dividend a few weeks ago, it has already served as a catalyst for increasing the adoption of the tZERO platform. As many of you have seen, 2 additional broker-dealers are live and trading on the tZERO ATS, one of which is a large, publicly traded company.

Next slide. As you will see with the next few slides, May was a record month across several fronts. First, we added more crypto app users last month than any prior month, bringing total users to 8,300. This represents an 85% increase this year. Upon receiving regulatory approval, we plan to migrate these users to our broker-dealer tZERO Markets. Last month, we also saw a record growth in investors that have access to our ATS. This is a result of increased investor interest and the newly subscribed broker-dealers that I mentioned.

Next slide. Volumes are -- as I mentioned, our ATS also saw record trading volumes last month. In total, we transacted over 423,000 shares. Year-to-date through May, volume on the ATS was up 46% compared to the same period last year. We expect these trends to continue as we onboard additional issuers and broker-dealers.

Next slide. While we are operating in a space that is still in its infancy, we thought it would be helpful to put our digital security volume into perspective relative to competitors. According to the Security Token Group and Cointelegraph, tZERO accounted for 95% of all security token



volume last month. Furthermore, our tokens represent 75% of the dollar value of all digital securities that trade today. This data is encouraging as it underscores the strength of our revolutionary platform. This is particularly important as we talk to prospective issuers.

Next slide. Overall, our key priorities for the year remain. We are focused on onboarding assets, enhancing liquidity on the platform and improving investor experience. On the asset front, we are approaching this objective from several fronts. First, we are working with private issuers that are interested in raising new capital before trading on our platform. This includes companies such as River Plaza, the \$25 million tokenization agreement we signed in the fourth quarter last year. The second category consists of issuers that aren't raising capital. However, they are interested in offering their existing investors liquidity. This includes private companies with deep cap tables as well as existing security tokens. On the liquidity front, we continue to work with broker-dealers that are interested in subscribing to our ATS and offering their clients access to our digital securities.

Overall, we had a strong start to the year. We are excited and continue to execute our key objectives and look forward to keeping you abreast of our progress.

With that, I'll turn it back to Jonathan.

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

Thanks, Saum. tZERO is continuing to make real progress, and I'm so pleased to see these record May results across several areas.

Next slide. Let me now discuss our Medici Ventures family of companies shown here. We've arranged this slide in a way that helps you understand our areas of focus and where each of our blockchain companies fits in our vision. I'll dive into each focus area and discuss specific companies as we continue our presentation. We chose each of these areas because they are central to the governance and functioning of societies and are aligned with our Medici Ventures mission.

Next slide. Since so many of you are new to Overstock and the Medici Ventures story, I hope it's helpful to provide a summary of each of our Medici Ventures businesses so you can have, in one place, a full overview for quick reference. We'll talk about each of these as we move through the presentation.

Next slide. Before we dive into specifics, let me talk about the Medici Ventures' vision: to change the world by advancing blockchain technology that eliminates costly middlemen, democratizes capital and ultimately rehumanizes commerce. Blockchain lets people transact with trust through technology. Still early in the days of blockchain but we are seeing steady progress in its adoption. Widespread adoption will occur when people see blockchain technology solving real-world problems rather than focusing on how the technology works. We are blockchain evangelists, explaining its use cases through public engagement and policymaker outreach.

Next slide. It's also worth discussing that Medici Ventures is not just in the business of funding start-ups. We are also an accelerator. We don't just write checks. We also provide additional support to advance our blockchain companies' success, including development and design work, public and government relations services, and assistance in raising additional capital. It may not be widely known but Medici Ventures has a world-class team of over 50 enterprise-grade blockchain developers and designers on staff. We make this team available to our blockchain companies often for sweat equity in a flexible and highly cost-efficient manner. We really do view our blockchain companies as a family. We are committed to helping them make real progress and get products into production.

Next slide. Let's talk about our first pillar, one that is foundational to many of our other areas of focus: identity. Specifically, we are focused on self-sovereign identity, which is your ability to securely prove and control an immutable record of your own identity and credentials using blockchain technology. It also allows you to trust that same information provided by others. There's no more need to hope a company will keep your identity stored in its database, safe from hackers, when you control your own identity information stored safely and securely on a cryptographically protected, distributed ledger. Identity is our first pillar because identity and credential verification are foundational to so many areas within commerce and beyond.



Next slide. Vital Chain's goal is to let users of its app control and present their own health records in a safe, secure and reliable way. Imagine being able to easily show the ticket taker at an airline or sporting event your test results showing you have COVID-19 antibodies or, when a vaccine is available, you've been vaccinated. Vital Chain leverages blockchain technology to provide a secure, trusted and convenient way for individuals to do this. It will be a digital immunity passport people can confidently rely on, and it will be used for other medical records and medical status as well.

Next slide. When a person shares their personal information with a website, that data can be hacked and stolen. Evernym has created a solution that puts users in control of their personal data. Through Evernym's technology, data that was once a target for hacking can now be safely and securely stored on a personal mobile device using blockchain technology.

Next slide. FinClusive's goal is simple: financial inclusion for the unbanked and the underbanked. It uses blockchain technology to provide banks with a low-cost, highly secure digital compliance solution so that those banks can legally sign up hard-to-bank people globally.

Next slide. Minds is building a social media site for those that want unfettered freedom of speech. Posters get paid in crypto through their contributions to the community.

Next slide. Netki validates uploaded global ID documents, like driver's licenses, using advanced biometrics and blockchain technology to ensure compliance in digital transactions.

Next slide. Our next pillar is land titling. In many parts of the world, property owners are unable to prove property ownership because government records are so inadequate. If someone can't prove property ownership, she can't sell, transfer or borrow against that property. Blockchain technology provides the ability to publicly store and manage property ownership records in a secure, immutable way. Land records and ownership becomes transparent, secure, verifiable and recognizable by local governments and businesses. This promotes economic development and financial inclusion, and the ability to prove property ownership unlocks capital that otherwise wouldn't be available to many.

Next slide. Medici Land Governance is using blockchain technology to support land governance, titling and administration with a secure public record of land ownership. MLG recently closed a sizable funding round. It has significantly extended its runway to profitability. More importantly, it has contracts and is doing work in St. Kitts, Zambia, Rwanda, Liberia, Mexico and the United States. Funding a paying client makes for a nice start-up model.

Next slide. Next among our pillars is banking and currency. Imagine if you had to be paid in cash, stand in line at a gas company to pay your utility bill in cash, and figure out how to store all your money in your home. Much of the world's population is unbanked, not because they don't have jobs or pay their bills but because the banking industry is so regulated, and that's how they live. As United States citizens, we often take for granted how well our banking and currency systems function relative to some parts of the world. We believe digital currency and digital wallets are the answer. We have ownership in companies developing blockchain-based solutions to help advance financial inclusion for those who are underbanked or unbanked.

Next slide. Bitt makes money transfer simple and secure with payment systems that promote social inclusion, financial empowerment and economic growth. More importantly, Bitt, with a team of Medici Ventures developers, is currently developing a central bank digital currency for the Eastern Caribbean Central Bank with participation from commercial banks, merchants and citizens. This is a project central bankers around the world are watching, and we're watching carefully. When it goes live, anticipated to be later this year, those central bankers will sit up and take notice.

Next slide. Many freelancers have a hard time issuing invoices and getting paid. Spera is a fintech company that has developed an all-in-one freelance platform to help independent business owners by providing task management tools that help reduce self-employed administrative burden to help them get paid.

Next slide. Ripio's goal: widen financial inclusion by offering digital payment solutions and providing peer-to-peer micro loans to the unbanked and underbanked in Latin and South America. These normal banking products are unavailable to many in those regions. That's where Ripio steps

in. Ripio's app is one of the most widely used platforms to buy, sell, trade and invest in cryptocurrencies, which, in countries with high inflation, prove to be a better store of value than the local fiat currency.

Next slide. PeerNova has its own blockchain platform that increases trust between financial institutions by providing a more transparent way to exchange complex enterprise data. Its products give end-to-end visibility to track the lineage of a data transaction with precision. This leads to better auditing capability and reduces overall transaction inefficiencies.

Next slide. Capital markets is our next industry focus. The current system needs improvement. Settlement is blocked. Access to capital is difficult. Our capital markets companies seek to democratize access to capital. Digital securities using blockchain technology are the answer, the ability to digitize and fractionalize entire classes of assets that until now were not available to the average investor. Our capital markets companies aim to remove the inefficiencies present in the current trading and settlement environment to increase transparency and to broaden access to capital and investment opportunities.

Next slide. You've already heard from tZERO's CEO, Saum Noursalehi. tZERO's goal is removing the inefficiencies of the capital markets and broadening access to capital and investment opportunities not currently available to most companies and investors. It's making real progress.

Next slide. Symbiont's smart securities technology provides institutions with a unified ledger for sharing business logic and market data using immutable blockchain technology. Another of our blockchain companies, GrainChain, is using Symbiont's technology.

Next slide. Next is supply chain, which, again if you're not catching the theme here, is an industry ripe for disruption. The ability to accurately track goods and payments for those goods using blockchain technology seems like it should already exist. The harsh reality however is that it doesn't. Distributed ledger technology is perfect to track the many touch points in a supply chain. Our supply chain companies help consumers track and validate the provenance of products, and suppliers receive fair and timely payment for those products. Again, we believe in solutions that help all parties involved. Applying blockchain to supply chains is win-win.

Next slide. GrainChain's innovative platform gets prompt payment to suppliers and farmers and ensures the immediate availability of tradable commodities to buyers. GrainChain has three blockchain-enabled products in production: a logistics execution system, a grain elevator facility solution, and a transaction and exchange platform. Through certification and accountability, these solutions mitigate fraud and corruption and increase efficiency along the entire supply chain.

Next slide. Vinsent is a blockchain-based platform that provides wineries with direct connections to their consumers and streamlines funding by selling wine futures. It guarantees ownership of a future case of wine when the batch is available for shipment. Its mobile app has seen a steady increase in usage as customers become more comfortable purchasing wine directly online.

Next slide. Factom has an authentication solution that lets you secure physical documents on the blockchain. This allows organizations to create, organize and report document proofs, data decisions and activity. This solution has been used by the Department of Homeland Security to secure data, provide chain of custody information, and prevent fraud.

Next slide. Our final industry pillar, voting. Given all that society is experiencing with this pandemic during an election year, voting has never been more top of mind. Even before the pandemic, we identified voting as an industry desperately in need of change. The pandemic simply highlighted the problems that exist with current voting methods and accelerated efforts to identify and develop alternative solutions. Some say vote by mail can't work. Others fear people won't go to polling places in person during the pandemic. Mobile voting using blockchain technology is the answer. Blockchain technology enables anonymous, safe and secure mobile voting with an auditable paper trail. No more hanging chads, stuffed ballot boxes, or waiting days for results.

Next slide. The world should be clamoring for Voatz. It has a mobile elections app that uses built-in security of smartphone technology and the immutability of the blockchain to enable safe and secure remote mobile voting from a mobile device. It uses biometric information to authenticate users, including fingerprints and facial recognition. Voatz recently conducted the Utah and Arizona Republican convention elections and in total has now successfully conducted over 60 safe and secure elections. Every county clerk in America should be calling Voatz to assist in this November's



election, and the parties should consider using the Voatz app at their national convention this summer in the event delegates can't vote in person because of pandemic or protests.

Next slide. Votem's mobile voting app lets users securely cast votes in private and public elections. The app lets a voter cast her vote at home, then simply scan her ballot at the polling location; easy and simple.

Next slide. SettleMint is one of our utility players, crossing several verticals and provides licensed, enterprise-grade, distributed middleware. It develops base applications for a variety of use cases, drastically reducing complexity and making it easy and fast for any organization to turn a business concept into a working blockchain application. And that wraps up a world in summary of our Medici Ventures businesses.

Next slide. I'll briefly recap before we move to Q&A.

Next slide. We've made a lot of progress thus far in 2020 across all of our businesses. We are executing on our initiatives. Our performance began accelerating even before the stay-at-home mandate. We're growing with that tailwind, but our focus and execution has made us stronger than ever. I'm confident Overstock Retail will achieve its goal of sustainable, profitable growth in short order, and that many of our blockchain businesses will continue to make progress.

With that, and that's a lot of that, let's take some questions.

QUESTIONS AND ANSWERS

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

Thank you. Thanks, Jonathan.

Operator

Go ahead.

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

Carmen, one moment. As usual, we've received a number of questions in advance of the call. So we'll address a few of those first and then open up the line for live questions. (Operator Instructions)

So our first question is related to the executive team. Jonathan, it seems like you've handpicked your team. One, is that true? And two, are there any positions you'd like to add?

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

That's a great question. And the answer is yes, it's absolutely true. I chose the team that I know can execute. We're looking to expand the Board, but we're not looking to expand our C-level team just now. We just added Adrienne, and she's been a fantastic addition. At the C-level, the culture is baking in, and it's always a delicate balance to grow a team and keep the culture. So we'll take it slow there. We are always looking to build out our technology teams, particularly in analytics, software development, machine learning and artificial intelligence.

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

Thanks, Jonathan. Our next question is related to Retail. Given the sudden acceleration in growth, what strains has this placed on the organization? Dave, can you take this one?

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

Sure. Great question. Thanks, Alexis. The beauty of our business model is that our technology stack handled the customer growth like a champ. That said, some areas operationally have a human element to them. The biggest challenge has been in customer service, as we mentioned earlier, but we've hired and trained and are tackling that well. As we mentioned in our prepared remarks, the customer care team was not staffed to manage the flood of sales. We've hired more people. We've streamlined automation. We've increased communication to our customers. Our carriers have been strained under the increased packages and their prioritization has prevented them from tracking all packages, leading to customer frustration and customers contacting our CS agents. Our partners have been adjusting to statewide closures. We've had millions of products on our website. And if some sell through, others pick up. All that said, our platform hasn't slowed. Our technology is scalable. The majority of our packages are arriving on or before the estimated delivery times. I couldn't be more pleased with the execution from our team while working from home.

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

Thanks, Dave. Our next question is for tZERO. Saum, how many broker-dealers does the company expect to have subscribed to the tZERO ATS by the end of the quarter and by the end of 2020?

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

Thanks, Alexis. As I mentioned during the second quarter, two additional broker-dealers went live on the tZERO ATS, ChoiceTrade and another large publicly traded financial services company. Including Dino, we currently have three live and are in active discussions with dozens of other broker-dealers who have expressed interest in subscribing. We can't comment on a specific number. However, we are confident we will have additional broker-dealers live in the near- to mid-term.

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

Thanks, Saum. And our next question is for you, Jonathan. On the Medici Ventures front, have you had any more opportunities to secure new investments by leveraging your blockchain talent rather than through cash investment?

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

The answer to that is yes, we have. Our most recent addition to the Medici family is Vital Chain. We were able to put together a deal that allowed us to utilize our enterprise-grade software developers and designers in exchange for equity without any cash consideration. We call these sweat equity deals. And we're working on another sweat equity deal right now and hope to announce it before too long. So that's an area of growth and something we focus on.

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

Thanks, Jonathan. Carmen, I think we are ready to take our first live question. Can you please open up the line?

Operator

And our first question is from Brad Safalow with PAA Research.

Bradley G. Safalow - PAA Research LLC - Founder & CEO

I wanted to start on the Retail side. Obviously, you've had a huge surge in traffic. Can you talk a little bit about the differences you're seeing in conversion between the desktop experience, mobile web, your mobile app? And you guys didn't comment specifically on the mobile app in this presentation. Can you talk about activity levels there and how the user experience or transaction activity differs on that platform?

Jonathan E. Johnson - Overstock.com, Inc. - CEO & Director

Brad, great to hear from you. Great question. I'm going to turn to Dave to give an answer or maybe perhaps a little bit of a non-answer because you're asking for some secret sauce. But Dave, I'll turn it to you.

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

Thanks, Jonathan. Thanks, Brad. A great question. As you know and as we have shared in the last couple of earnings calls, one of our primary initiatives is driving our mobile experience, improving it. Desktop conversion, industry-wide, is of course going to be the highest. But we did share on our previous earnings call that our mobile sales are reaching half of our total revenue and growing. Mobile app, the application itself, is a smaller part of that. I'm not going to get into any more details in terms of breaking up the components other than to say that we -- that is one of our four company initiatives. It's improving our mobile experience and we are experiencing results as we shared in our first quarter.

Bradley G. Safalow - PAA Research LLC - Founder & CEO

Can you comment on app downloads or anything on that front?

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

I can tell you that the number of app downloads equals the growth rate of our revenue, almost to a T, as a percentage of growth of app downloads year-over-year during the same timeframe.

Bradley G. Safalow - PAA Research LLC - Founder & CEO

Okay. That's helpful. And then given the amount of new customers you've had, I mean this gives you a huge tailwind as you go forward. I'm curious if you're approaching retaining those customers in any different ways. What's your strategy to drive sales from that cohort as we get into the third, fourth quarter and 2021?

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

Yes. I mean Brad, that is the question. If there is a question that we are all looking at and working on, that is the question. Our executive team's main focus is on that very topic. We've recently doubled the number of customers that we can identify and market to. Here's some of the things that we're working on: First, we're focusing on our brand pillars and winning on smart value and free shipping. Our customers buy from us because they love our promotions and they absolutely love free shipping on everything. Next, we're working on real-time, customer-relevant experiences. We're expanding our personalized and real-time content portfolio so that you as a customer, me as a customer, you're getting content, you're getting products and you're getting price points and promotions that mean the most to you. We've reorganized and restructured our site merchandising group and our site experience group to add even more heft to the conversion funnel channels and how we work through those. There's a lot we're working on here and we're very focused on, to your question. And we're very excited about what we're seeing.



Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

Brad, we have a near-daily senior executive Overstock Retail lunch meeting. And this is a topic that comes up all the time, including during today's meeting. We know that we've got to keep our new customers and our loyal customers happy. And we've been given an opportunity, which is a huge tidal wave of new customers, to treat them well, and so we're looking at all kinds of ways to do that.

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

(inaudible)

Bradley G. Safalow - *PAA Research LLC - Founder & CEO*

And one last question and I'll -- I'm sorry, one more question and I'll go back in queue. Just on the gross margin front, you guys talked about some of the issues and strains on the organization and with your logistics partners. Is it realistic that you guys could sustain the gross margins that you saw in the first quarter? I mean there's obviously a lot of stressors out there, across the organization. Or should we think about some of a drag because of what you've experienced on the shipping side?

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

Good question. I'm going to turn to Adrienne to address that first. Dave can add anything as well.

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

Perfect. Jonathan, yes, happy to. So I think, Brad, kind of -- as we said and as I talked about in my prepared remarks, our goal is really to maintain the recent margin trends, and a couple of ways to think about this, as we said, kind of continuing our operational efficiencies and continuing to sharpen our pricing and promotional strategies. I'll give you a couple of examples of kind of our top three items there. One of the key ones is to reduce logistics costs. And this is really by reducing the number of highly expensive, cross-country shipments. And we can do this by increasing the number of partner products shipped to our customers from actually our Supplier Oasis Fulfillment warehouses. This significantly reduces freight costs and gets products to our customers more quickly. And just to note on that, we are planning to open our California fulfillment center in August of this year. Another notable item is obviously to continue to optimize our pricing by identifying uncompetitive SKUs and taking proper action. Another benefit of this is it also improves our customer perception. And then finally, one to keep in mind is our continued focus on net returns cost. A great example of this, and we talked about it in various parts of the script, is developing automations that our customers desire. One of these items is to easily cancel a product purchase prior to it shipping. So to answer your question, we're looking to maintain the margin trends we've seen and really using a lot of the levers within that bucket based on initiatives.

Operator

(Operator Instructions) Our next question is from Marc Cohodes with Alder Lane Farm.

Marc Cohodes

Well, I'll first make -- first, I'm going to make a couple of comments because I'm hopeful the Board is either listening in on this or will read or listen to a transcript afterwards. So good, bad or indifferent, I've been involved in this...

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

Yes. Don't steal the show, Marc. Don't steal the show, but go ahead.

Marc Cohodes

I'm not stealing the show, I'll be brief. I've been involved in the company. Jonathan and I go back to 2003, and never has the company done so well as they're doing now. I think your leadership, Jonathan, is outstanding. You guys are operating on a high level in very difficult times, and I couldn't be happier with you running the show. I also think it's important since I own all three securities, the token, the preferred and the common, to really, as things do better, declare significant dividends in each, give some back to the holders especially in the speculative instruments. And given sort of -- and here's the question part. Given sort of the way the investment landscape has changed over the years and now with the excitement of Robinhood and Coinbase and others, has tZERO thought of partnering up with people like this, Saum, to bring even more to the platform?

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

Let me jump in and answer.

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

Yes. Go ahead.

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

Saum, before we -- before you address the Robinhood-related questions, let me just talk about the dividend. Marc, thank you for -- thanks for the kind words and thanks for the advice on the dividend. The Board looks at the dividend frequently. We talked about it in our last Board meeting. We're thoughtful of that. We want to do right by our shareholders, and we want to do -- make sure we have enough cash for the company. So we're going to continue to watch that, but message delivered and heard, loud and clear. So Saum, with that, I'll let you talk about how tZERO can compete with or look like Robinhood.

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

Yes. We're -- a great question, Marc. And they actually have -- based on the demographic data we've seen with accounts that onboard, for example, through our crypto app, they have a very similar audience to what we do, which typically is younger, newer investors that are getting into the space that -- and -- as well as the Crypto audience. We have spoken to Robinhood, and those conversations are continuing. So we hope to have them subscribe to our ATS and get into the digital security space as well as several other large broker-dealers. So we are in active discussions with them, and we're hopeful to get some of them live. They're actually -- there's a good reason for them to subscribe because a lot of their clients are actually doing transfers into Dino, and the easy way to solve that is for them to subscribe directly and be cutting-edge and get into this space.

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

If I could just add to that. If -- I would like to add. When tZERO has its broker-dealer approved by FINRA and the SEC, we'll have the ability to have a wallet which can hold crypto, cash and security tokens and maybe even other securities. That is how the millennial wants to trade. They don't want to have to have an account for their crypto, an account for security token and an account for what they trade elsewhere. I think tZERO is building an app that is built for the millennial trader.

Marc Cohodes

Great. My next question and/or comment is around the shelf or the ATM. I think that you guys are now of a pedigree you don't need such a thing. I think it would be great if you could just have a shelf ready to go, and if you need to raise money, you raise it just like other companies your size. I think it would encourage sponsorship by people who follow stocks on Wall Street. It would create a more jump-ball atmosphere. And I think you

would attract people who really care about the capital structure of the company, and it would sort of -- it's a sign, a further sign of breaking the company away from legacy practices, which I think would be important.

My question of questions comes with the Medici portfolio. When you go over it, it's very, very, very exciting. And any one of these companies or many of these companies could be home runs. Do you have enough people at the company, at base Overstock or Medici, to actively monitor these things, cherry-pick what to invest in, what to divest, what to manage, what to spin out, what to do a token on? Do you have enough horsepower there to do this?

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

Good question, Marc. First, on shelf versus ATM, as I mentioned in the opening remarks, we recently regained WKSJ status, and I'm excited about that, and we'll be filing an S-3 that will give us that ability. We'll also maintain an ATM. As I mentioned, we haven't used it this year and we don't have any current plans to use it at these current prices. So again, comments heard and noted.

On the ability to manage the different companies in the Medici family, we are looking to bulk that up, and it's one of the things that the Board asked me to do when we met at our last quarterly Board meeting. I think the answer is yes, we do now, but we can do better by having a little bit more oversight. We do have the technical knowledge and we do have the technical talent to help them. I think what we need next is some people that have helped software companies grow and have access and figure out how to build a sales team and do that. And so that's what we're looking for next as we expand the Medici team.

Operator

Our next question comes from Bill Baker with GARP Research.

William Wendell Baker - *GARP Research & Securities Co. - Founder & President*

Yes, thanks. In your presentation, you went over the SEO trends. And in the past, you've talked about them as well, yet one of the changes in the last several years has been the rise in social media. And there are a number of -- some of these companies are now public. Some of them have massively higher advertising revenue than they had when they became public. So to what extent are you participating in these other forms of advertising? And to what extent -- is there any internal rate of return on it? Because there's no visibility to any internal rate of return in view of your largest competitor with the large advertising budgets and the subsequent lack of operating profits. So what -- how do you view advertising in social? And is it even important in the mix at this point?

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

It's a great question, Bill. I'm going to turn it over to Dave in just a minute. I do want to say you've mentioned one of our competitors and lumped us in with them. I think you'll see us at sustainable, profitable growth. Maybe I could have said that one more time in our prepared remarks. But that is our goal. Now we do -- we talked about SEO. We do do social ads -- social media ads. I'll turn it over to Dave to discuss a little bit more.

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

Thanks, Jonathan. Yes, Bill, it's an interesting model. And what we find is as you look at the customer demographics, there's a certain customer who is -- you need to attract them via social media. And that is a touch point. That isn't the only touch point, however. And it's a very loose advertising strategy, but we test with all of the platforms and we work with the majority of the platforms. And when you get into site-wide attribution, if you will, as the teams fight it out for who really got credit for bringing that customer in, social is always a component of that in some form or another along the customer journey. Much like you talked about television. It's very difficult to justify television and bringing that customer in, but you



know you have to apply some component of your advertising budget to that. Social is very similar to that in the approach. We're working with the majority of the social platforms.

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

And we monitor the ROI. I can't see Adrienne because we're doing this call remotely, but I know that she would be waving her hands at me saying we don't needlessly spend money on advertising. If we don't see an ROI, we move our advertising budget to a channel which has a good ROI. So I hope that addresses the question, Bill.

Operator

Our next -- and our next question is from Drew Johnson.

Unidentified Participant

This question is for Saum. Saum, I was curious in regards to some of the -- are we -- I guess maybe like 6, 12 months ago, there was some talk about tokens coming out for different projects. And I was just sort of looking for an update on where we stand with some of those projects from some of those press releases?

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

Sure. Yes, I was forecasting getting 5 or so live by now. There's a couple of challenges that we ran into. One, there really aren't that many quality security tokens out there. So we started diligence on several of them and just thought, you know, we don't feel comfortable allowing -- putting this on our platform. The ones that we do think are quality, we're in conversations with and we're kind of preparing to get actually one of the strongest ones live, but because of the COVID situation, the issuer actually asked to pause and not move forward. And we kind of heard that across the board. With things kind of calming down now, a lot of these issuers are reengaging with us. So we're hopeful that in the near term, we can get some of these assets out. In addition, to get things up quickly for trading, they can't be accompanied with a new capital raise because that process can take 4 to 6 months and COVID slowed down a lot of ICOs and private placements, as you probably heard. So the fastest way to get additional trading tokens is to just go straight to tokenizing existing companies' cap tables, especially companies with deep cap tables. And so we've kind of redirected some of our resources towards pursuing those opportunities.

Unidentified Participant

And is there an opportunity for you all to take tokens as part of payment in regards to doing work for these companies and then being able to issue that as dividends to the tZERO token holders?

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

Taking that as payment -- I mean that gets into some regulatory stuff that right now, we're not ready to tackle, but that is that is an interesting model that I know in the ICO world, they were doing some of that. In securities, it's -- we got to be a lot more careful. And so it is something worth looking more into, but at this time, we're not doing that.

Operator

Our next question comes from Brad Safalow with PAA Research.

Bradley G. Safalow - PAA Research LLC - Founder & CEO

Round 2. Going back to Retail, just a question on your vendor relations. And obviously, you guys have delivered the kind of sales growth you haven't seen in a very, very long time. Has that resulted in any change either in the allocation you're getting from vendors or an expansion of your vendor base or potentially you have now a broader pipeline of potential vendors? Can you talk about the vendor side of the house?

Jonathan E. Johnson - Overstock.com, Inc. - CEO & Director

Let me comment on that briefly, and I'll turn it to Dave. I started out this presentation by stating one of my CEO objectives for the year with increasing communication with employees, shareholders and other stakeholders. I've been meeting with and talking with our suppliers, our partners, our vendors frequently. I think they feel like they have a level of communication with management like they never have before. And so there's a lot of that. The communication is good. When communication is good, the relationship tends to be good. So that's kind of a top level answer. I'll let Dave get a little more specific on things we're doing.

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

Thanks, Jonathan. From an operational standpoint, Brad, we are on the phone multiple times a week with our top suppliers. They are critical. We believe we are winning in the allocation battle of who gets the inventory, and we have taken the time. And as Jonathan said, and I think this is so important. We've always treated our partners exactly as that, as a partner. And they comment to us on that, in the middle of the pandemic, we had a call with our partners. We shared with them what we're working on, what we're doing. They appreciate that and they appreciated that time to talk through how we were thinking about it, how we were thinking about promotionaling, some of the challenges we were facing with fulfillment and what we needed from them. We spent time talking with some of the owners, some of the CEOs of these companies, talking about essential workforce and how we are doing it in our fulfillment centers, and how they can keep their fulfillment centers open and stagger shifts and work through social distancing challenges. So I could -- I can honestly say, I don't think our relationship with our partners has ever been stronger than it has through this process.

Bradley G. Safalow - PAA Research LLC - Founder & CEO

Is it something like you feel like you can grow the base or you're focused more on increased allocation?

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

I'm sorry?

Bradley G. Safalow - PAA Research LLC - Founder & CEO

Sorry, do you think you can grow like the number of vendors you work with? Or is it more you want a bigger inventory allocation the priority for the company?

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

It's both. We're adding new vendors every day. We have a business development team. As I mentioned, the site merchandising team, we're always looking at our competition at Google search. We're always evaluating where the top products are if we don't have them and going after those partners. So every day, we're adding new partners. We are also in the allocation battle right now. And it comes down to the economics. And who pays quicker. And one of the things that Jonathan shared when we met with the partner base a few months back was we'll pay you. We're not

going to extend your payments. We're not going to play games with that. We have always paid on time, and that's been a very important component that our partners appreciate about who they're shipping their inventory with.

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

I'll say this, Brad, this is what we were talking about in our larger Overstock retail executive meeting Monday afternoon, particular product category and the partner suppliers in that group and what we could do to extend and pull out inventory -- and get more inventory from them. And specific suppliers we're not dealing with who we'd like those merchants to go after. So I hear these discussions all the time. The answer to your question is yes and yes. We want more inventory from our existing partners and we want to add new partners to the list.

Bradley G. Safalow - *PAA Research LLC - Founder & CEO*

Okay. And then again, on the retail and the marketing side, you talked about a tight ROI focus. I mean I can see that you've had a huge increase in paid search volume to your sites, your platforms. You've done a lot more, let's just say, traditional branding through television from what I can see. As we go forward, and obviously, I would expect there'll be some moderation in sales at some point this year. How are you thinking strategically about balancing ROI versus keeping this brand momentum and the growth? I know you keep talking about profitable growth, but is there any area on the marketing side where you feel like you can come back quickly? Or how are you going to approach it as you go forward?

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

Yes. So Brad, I've mentioned in Q&A, I believe it was on the earnings call, that the cost of acquisition had slightly decreased through this pandemic with some of the brick-and-mortar players stepping away because why spend money and drive into a closed door. We've taken full advantage of that. And as you mentioned, that isn't going to continue forever. But you have heard the theme and our commitment to sustainable profitable growth. We've done some shifting, some movement, some allocation. But we've stayed on our economic models. And that has been important for us to optimize to the day, but also be responsible to our bottom line and to our shareholders. So we've seen some big wins. You'll see us on CNN in the morning. You'll see us on FOX News in the morning, and that's where everybody's eyes were and our team shifted to that very quickly. We also have some other venues and areas, networks that do very well for us, but we have fully maximized to our bottom line as well as to customer acquisition.

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

Brad, when marketing dollars slosh around in the bathtub on the ship, we're always looking for the place where we're going to get the most. And what we saw during the pandemic was people wanted news. We have not historically been advertisers on news stations. We also saw the brick-and-mortar home furnishings companies were, who are huge TV advertisers in the local market, stopped advertising. That created two big gaping holes that we could take advantage of. Prices were going down because home furnishings advertisers weren't there. And we could better see where traffic was -- where eyeballs were coming. So I'm glad you saw more of our ads. I think that means our marketing has worked well.

Bradley G. Safalow - *PAA Research LLC - Founder & CEO*

I guess the essential question then is bricks-and-mortar, I assume, has already started to step back into the market to some degree. What is it that you're going to focus on in the second half of this year to sustain momentum, recognizing that 120% sales growth is probably not sustainable.

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

We're not modeling 120%, just so you know. And we do see brick-and-mortars opening up, and we see it in advertising in a big way. We don't see their parking lots very full. I think there's a couple of things. People are still uncomfortable going into brick-and-mortar stores, particularly on



high-touch items like furniture. And as Dave mentioned, we've gone from 23% of the home furnishings market was online to 40-some odd percent. Some of that is going to stick. And when we see continued TV marketing doesn't work for us, and we're not seeing an ROI, we'll go back to what we've always done before and spend well. Adrienne, do you want to add to that at all?

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

No, all I'd say, Jonathan and Brad, I think this -- we've kind of echoed this is we're really focused on delivering our margin commitments, and we have levers in our P&L that we're looking at daily. And as we talked about with ROAS and ROIs, we're managing and monitoring real-time. So I think that's all -- I'd just echo your sentiment, Jonathan.

Bradley G. Safalow - *PAA Research LLC - Founder & CEO*

Okay. That's helpful. And if I could ask a couple of questions to Saum. Saum, on the retail broker-dealer side, can you update us on your expectations on timing of a potential approval?

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

Yes. I think we're getting to the final stages to get that approved, but I haven't done a great job of estimating things when regulators get involved. So I feel like we're getting close. We've been very responsive in getting back to the regulators within a week of when they ask us questions. It feels like all that's left now is FINRA to give the go ahead. So we're expecting an answer from them near the end of this month. There's a chance they ask for some additional time, but it feels like we're getting very close. So if they do extend, I still think it's in the small number of months, not in the year type timeframe. So hopefully late this month but maybe another month or 2. That's just my estimate. So it's difficult to judge when regulators get involved.

Bradley G. Safalow - *PAA Research LLC - Founder & CEO*

And is FINRA the only regulator that has to approve this or does the SEC as well?

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

Jonathan, were you going to chime in?

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

First, Saum, answer that question, and then I'll add a few.

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

Okay, it's FINRA at this point. So it's -- we're just waiting for FINRA's feedback.

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

Brad, we're super responsive, we're super cooperative. A CEO like Saum can control a lot of things but you can never control a regulator. You just kind of play along, you play nice, you be responsive, you do the right thing and they're going to act when they act. We hope it's sooner than later.

Bradley G. Safalow - PAA Research LLC - Founder & CEO

Okay. And then, Saum, I don't know if you -- again, I understand there's a lot of uncertainty now, but what's the goal of yours? It's not something we're going to hold you to, but like in terms of the number of tokens you want to have trading on the platform by the end of the year, how are you thinking about that as an objective today?

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

Yes. That -- with having executed the dividend and getting these BDs onboarded, it's really the focus is now with COVID kind of coming -- stabilizing, is go back to more assets is a top priority. There are a couple of quality assets that I'd like to see trading in the next couple of months. And so that's our immediate goal. From there, I think we'll -- you'll hear us announce more partnerships and offerings, but really another opportunity that I like for assets is just tokenizing existing assets like real estate or companies with a deep cap table like, I'm not saying we're talking to them, but think of like an Airbnb, where they're private and you're giving that company now liquidity amongst -- and the issuer themselves can decide the rules around how it trades. So for example, it might just trade amongst employees or they might float a portion of it where the outside world can invest. So those are opportunities we're looking at. I think getting in the, I don't know, maybe 5 to 10 by the end of the year would be a good goal, but I disqualified a lot of them. There's probably about 150 to 200 security tokens out there, and most of them are not the kind of assets I would like to trade. So it's really about all the deals we're finding as well as the Vertalos and Securitize finishing their raises and then qualifying for trading depending on the type of offering.

Bradley G. Safalow - PAA Research LLC - Founder & CEO

Okay. That's helpful. And then you gave us some ideas on how to think about the revenue model and -- I mean, I've put pen to paper on that and try to frame it. But the one thing that I really don't have a great appreciation for is the structural margin profile of the business as you kind of scale up because you have the broker-dealer side, you have an underwriting side, you have, hopefully, an exchange side, each of those businesses have very different margins. So how would you encourage investors to think about the margin profile of the business as you get to some sort of scale?

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

That's hard to say -- It is still early, to your point, and there are very different units. But where we see the bulk of revenues coming, and margin is as part of capital raises, once we're approved as a BD charging a percentage of capital raise as well as the fees around listing on the ATS. So those are the 2 primary drivers. And then as we get user growth and more assets, obviously the volumes go up. And so transaction fees will become more meaningful. But at this stage, it's a little early to see where margins will be optimized to.

Operator

Our next question is from Marc Cohodes with Alder Lane Farm.

Marc Cohodes

So Saum on the getting additional broker-dealers, I think the unnamed one is kind of a Piper Jaffray-sized firm. How hard is it and what's the decider to get the RBCs, the Raymond Jameses, the Wedbushes, the TDs, the Robinhoods. What is the holdup to get all those guys on?

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

Yes. So that's not a technical list. It's very easy for these firms to plug-in and trade. It's really whether they see the volume and opportunity. And if they have to worry about losing clients to go to Dino to sign up, for example, that's a great motivator. So OSTKO was a great driver in creating

interest in subscribing, but once they do subscribe, it's relatively easy for them to get live. We have traditional fixed connections, which is what the financial world is used to. So it's within a week or 2, we could have them up and running.

Marc Cohodes

And how close are you on the next tier of additions?

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

We have, I think, a couple of subscribers that we're talking to about going live. And then we're in conversations with some bigger firms that we're still kind of educating on this whole new ecosystem. And so a lot of the heavy lifting is first making them feel comfortable and their compliance departments comfortable with digital assets. That's probably where the heaviest lift is.

Marc Cohodes

Okay. Jonathan, I have a question on Voatz. Mitt Romney has gotten a lot of really good publicity lately, and he's your senator in Utah. Have you talked to him and Mike Lee about Voatz? Because it seems almost like a no-brainer here if people don't trust mail, and people don't want to go to the ballot box because of COVID or lines, et cetera. Do you have political champions pushing the concept and roll-out of Voatz?

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

Great question. We reached out to both of the senators in Utah. Got a meeting with one of them next week to demo -- with the Voatz team to demo the Voatz app. We have a government relations team, as does Voatz. Medici has one, as Voatz does, that works in D.C. spends a lot of time on this. We're reaching out to both of the political parties. I think this is a no-brainer for their conventions, seeing how well it's worked at state conventions. Who knows what these summer conventions are going to look like, if people can gather, if they gather, if they can actually get in the convention hall. So we're pushing this hard. As you know, there's a lot -- this is a highly charged topic. The President wants no votes by mail, Democrats want lots of vote by mail. We think we're the solution. So we're talking to our teams. We're talking to people in D.C. just about every day.

Marc Cohodes

Okay. And my last question before I jump back in. What are the Medici companies that aren't really discussed that you're most excited about?

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

Well, it's always like asking which of my kids I love the most. And every time I answer this question, the ones I don't mention call me up and say, "Hey, don't you love me?" But I will tell you, in addition to the ones that we talk about like tZERO and Voatz, Medici Land Governance is exciting. Vital Chain has gotten recent funding and contracts, the pandemic -is highlighting problems that Bitt, Voatz, FinClusive, Vital Chain and Evernym solve. Vinsent's trying to raise some money for a wine fund that will operate on its platform. We think that's kind of exciting. So those are the ones that I'm pretty hopeful about right now.

Marc Cohodes

Are you surprised by the lack of publicity, excitement, uptake by people in the general public on these assets?



Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

Yes. Yes, I am. And I think part of the reason, Marc, is some of these companies spent time in their early days talking about blockchain and the technology, rather than the solution they were providing. And when you start talking about blockchain, people start talking about crypto or merkle trees, and nonces, and mining, things that aren't really relevant to how the user is going to use the app. I think that's changed. And we've encouraged each of the companies in the Medici Ventures family to not focus on the blockchain piece, but to focus on the problem being solved and the ease of the solution. And I think that's helped on the uptake, but each one of these companies is working in areas with strong incumbents. I mean, tZERO is changing the way capital markets work, you can't tell me there's an industry where that has stronger incumbents than in the capital markets. And in voting, there are 3 voting machine makers, and they work really hard to protect their turf, and we think they're working really hard to protect the buggy whips because it's the past and it's not going to be very easy to beat.

Marc Cohodes

They used to work hard to protect payphones and telephone books, too.

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

Yes. No, I get it. The internet and mobile phones have changed all that. I think blockchain is going to be that disruptive, that revolutionary.

Operator

Our next question is from Allen Klee with National Securities Corporation.

Allen Robert Klee - *National Securities Corporation, Research Division - Research Analyst*

For your retail segment, can you talk about your warehousing and fulfillment and to what extent you can have operating leverage in that with more sales? Or contrasting, do you have challenges relating to COVID and social distancing and sanitizing. How do you think about how you can leverage those costs as your volumes go up?

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

Dave, why don't you talk about the fulfillment centers and how we think about that? And why some is not quite as applicable to that.

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

Yes. So our fulfillment centers, as we mentioned on the call, we have about 4,600 between us and our partner base. So a typical partner could have an East Coast to West Coast and the Midwest, or they may only have an East Coast and the West Coast and use our Supplier Oasis Fulfillment center in the Midwest. That combination allows our customers and allows our product to be shipped from the closest distance from the customer. However, that being said, during the pandemic, what has been helpful is, let's say, a particular state has harder, tighter restrictions on work from home, we still have inventory in other states, got to be shipped a little bit further, but we can still ship it from that location. And as we're all watching the pandemic COVID-19 pop up in different pockets of the country at different times, we've really been able to react and work around it. So we feel it's -- our business model, our supply chain fulfillment center model has been very responsive and reactive to this pandemic in this situation.

Allen Robert Klee - *National Securities Corporation, Research Division - Research Analyst*

Interesting because...

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

Did that answer your question?

Allen Robert Klee - *National Securities Corporation, Research Division - Research Analyst*

Well, I know that Amazon has said that we were going to make \$4 billion in profit next quarter and that's all going to go away because we have to spend it on social distancing, sanitizing and all that stuff. So I'm not sure I understand why it's different for you?

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

Well, we're still providing all of the cleaning, all of the social distancing, the staggering of hours, we're still providing all of those elements. But if you think about the number of locations by which we're shipping from, they're not your massive million square foot facilities with thousands of people coming in to that distribution fulfillment center facility. With our 4,600 facilities, some of these are mom-and-pop shops. But they are strategically positioned all over the country and a little more manageable. It adds a lot of flexibility.

Allen Robert Klee - *National Securities Corporation, Research Division - Research Analyst*

Are you able to negotiate better terms with your carriers given the higher volumes?

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

We have -- we just renegotiated our terms with UPS at the beginning of this year that we shared earlier. And yes, there's always the opportunity to improve, and we have negotiated tiers, volumes with discounts as volume grows. And we're participating in that. I will tell you, the flip side of that is many of the carriers, the supply chain has been turned on its head. The demand is coming from different locations than it was pre-COVID, a little less on the apparel and footwear side, more in the home furnishing side, that shifts where the trucks are going from where they were going. And anytime you disrupt supply chains, it throws them into a little bit of chaos, not to mention our carriers shipping PPE products all over the country and working with FEMA and Health & Homeland Security. So when you take all that into consideration, you probably hear in the earnings calls and in investor calls from our -- from these carriers, they're racked with challenges through this. And they've just issued increased surcharges, peak surcharges. Now we're working through those. So while there is volume increases, there are surcharge increases, there's some trade-offs, and we're just working through that.

Allen Robert Klee - *National Securities Corporation, Research Division - Research Analyst*

My last question is related to tZERO. Your business model makes a lot of sense, should have very high margins, very scalable, if it scales and gets large. And conversely, it doesn't make sense at all if you have a very small immaterial amount of trading on it. So I've heard 2 different things here. I've heard one large opportunity of items that you can move on to it, but on the other hand, I heard that there's not enough today of quality securities out there. So how do we get to the point that this is going to scale up?

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

Yes. Well, I speak to a lot of people in this space. I mentioned some of the partners we are talking to that do issuance of new security tokens. And I think what we've all kind of agreed, like talking to the CEOs of, for example, Vertalo and Securitize, is while the space didn't explode the way ICOs did, which in a heavily regulated field, it was just not going to happen looking back on it, we're just seeing better and better quality deals coming. So while the early assets were, I would say, a lot of them weren't very high quality, gradually and the newer deals that are getting announced, Vertalo announced up to \$300 million in real estate. We've got a big real estate issuer we're talking to that has, I think, over \$1 billion in assets. And

so I think what it appears is the quality of new offerings just is continuing to get larger and better. And so we're bullish, and we don't think we're trying to create all this technology to disrupt how broker-dealers trade, exchange technology, capital formation technology. And so it's not just going to be us doing it on our own. We want to be able to consume all the best assets from any source in the digital space. So partnerships become really important to help our ecosystem scale.

Operator

And our next question is from Thomas Forte with D.A. Davidson.

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

Great. So first, I want to make an observation. And my observation is as a long-time follower of the company and the industry, the health of your namesake retail business has never been better. So you should be very proud of that achievement, and you guys are doing an amazing job of executing.

So the first question is on customer acquisition. And the second one is on capital allocation. For -- so I'll ask the first one and then I'll pause and ask the second. On customer acquisition costs for Retail, is this the lowest it's ever been, given the recent strength in Retail? And then for tZERO, is it also at historic lows because of the successful OSTKO digital dividend?

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

Dave, I'll let you answer for retail.

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

Yes. For customer acquisition costs, we've seen it reduced by 20% to 25%. That is the lowest we have seen in the last 5 years, a 5-year low.

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

And Saum, how about the people signed up with tZERO?

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

Yes. So I can't comment on acquisition costs for Dino., that's their business. On the crypto side, we're finding it a very affordable way to get financial customers that we're hoping as we get approved for a BD will become customers of securities. Then -- so we've been doing testing of digital marketing and finding really nice cohorts and marketing channels to acquire customers for very cheap.

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

Excellent. So my second question is for Jonathan. So I'm going to phrase this carefully. But given Retail's impressive results in April and May, is it time for you to reconsider the company's capital allocation decision-making process and inject more capital into Retail to drive future growth and profits?

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

So I'm going to first let Adrienne take --an answer that, and then I'll add to it. Adrienne?

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

Sure, Jonathan. Thanks. Tom, I think about it like this. We're investing while we're on our path to sustainable profitable growth for Overstock Retail. And once we achieve that, we'll certainly determine our kind of future investment levels, but again, we're kind of investing on the way to the sustainable profitable growth. And additionally, we've talked about this on the call as well. We're committed to supporting tZERO and would also like to be involved in future fundings within our Medici Ventures investments. The good news on those last two fronts is that we foresee the ability to fund internally. So that's how I kind of think about capital in the near term. Jonathan?

Jonathan E. Johnson - *Overstock.com, Inc. - CEO & Director*

Thanks, Adrienne. I agree with everything you said. Tom, I'd say we have not starved Overstock Retail at all on capital allocation. It has all that it needs to grow. That said, it's being very careful. We're not getting fat, we're not getting bloated. That's a real focus. When we talk about sustainable, and sustainable profitable growth, it means watching the pennies we're spending. But I wouldn't say we've under-allocated to Retail at all in the last 10 months. tZERO continues to get all the allocation it's needed. We do monitor its progress. Start-ups never tend to start up as quickly as you'd hoped. That just happens -- it's like the rule. And so we continue to fund it. It has meant that we have been -- we've paused on looking for other companies to add to the blockchain family. We focused more on sweat equity because we've got developers there that can do that. If the balance sheet continues to be strong, we probably open our eyes a little wider and look for blockchain companies that makes sense in the 6 pillars I outlined on the call. So Tom, first, thank you for your time and remarks at the beginning. I hope that answered -- addressed your question.

We hit the top of the hour. We've been doing this for 2 hours. We appreciate everyone participating in today's event. Thank you so much. I'm really going to try and meet this objective of communicating better with our shareholders and other stakeholders. So we'll do some more events again in the future. I think this was a great discussion. Thanks for your thoughtful question. Every question that was asked I think was germane and shows an understanding of the Overstock businesses. We appreciate your interest in Overstock. Until we talk again, stay safe, stay healthy and stay productive. Thanks so much.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program, and you may now disconnect.

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