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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Overstock.com Q4 2018 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call may be recorded.

It is now my pleasure to hand the conference over to Mr. Greg Iverson, Chief Financial Officer. Sir, you may begin.

Gregory J. Iverson *Overstock.com, Inc. - CFO*

Thank you. Good morning, and welcome to our fourth quarter 2018 earnings conference call. Joining me today are Dr. Patrick Byrne, Founder, CEO and President; Saum Noursalehi, CEO of tZERO; Jonathan Johnson, President of Medici Ventures; Seth Moore, Chief Strategy Officer; J.P. Knab, Chief Marketing Officer; and Dave Nielsen, Chief Sourcing & Operations Officer.

Let me remind you that the following discussion and our responses to your questions reflect management's view as of today, March 18, 2019, and may include forward-looking statements, actual results may differ materially. Additional information about factors that could potentially impact our financial results is included in our Form 10-K for 2018 and in the press release filed today. Please review the forward-looking statements disclosed on Slide 2 of today's presentation.

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

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

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

Thank you, Greg, and good morning, shareholders. Behold our agenda: Today, we will be discussing Medici Ventures, both giving you the big-picture vision and discussing our progress and in addition, we'll discuss retail where we're emphasizing our new course to generating \$10 million of positive cash flow this year. Then we will discuss strategic alternatives, which I know are on everyone's mind and then what our plan is for 2019 before we have a Q&A period.

Slide. First comes our vision for Medici. For competitive reasons, we've never really laid it out fully and we're still keeping a detail or 2 hidden, what follows is the full vision for Medici.

Slide. This is a 3,000-year-old Chinese character that means country. Slide. In it, they see mouths. Slide. Land. Slide. And a spear. Slide. Mouths represents people in Chinese, so when you put people and land and military together, those are the constituents of a country in the Chinese worldview.

Five years ago, we became aware of the potential of blockchain. If you look at my interviews from back then when I said we are taking Bitcoin, I said repeatedly, it's really not about Bitcoin. It's about letting our engineers get experienced with blockchain. That's because we understood then that there's a new era coming to humanity riding on a blockchain, and we wanted to have a stake in some of the most fundamental processes of that new era. So, by that, we mean; Slide, people; Slide, capital; Slide, currency; Slide, capital markets, commerce and voting. Put those together in a box and just like the Chinese see the box on the left as a country, we saw these processes as you put them together and you have a tech stack, on which a country could operate.



Slide. What this leads to is our vision in Medici of government as a service, where we can build the components of government that are clean, efficient and incorruptible.

So, by that, I mean, when I say -- and if you agree that if you take the elements of people and capital and money and capital markets and commerce and voting together, that's sort of a society. Well, what we're saying is, we want to have a play wherein blockchain meets identity and blockchain meets land titling and blockchain meets banking and currency, and capital markets from commerce that is blockchain meets supply chain; and lastly, blockchain meets voting. That was the blueprint that was turned over to Jonathan with the request that we build-out a stable of companies that fit this blueprint. Jonathan?

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

Thanks, Patrick. Next slide. So, to execute on this vision of building a blockchain tech stack for civilization, Medici has worked to find cutting-edge blockchain companies that fit within each of these verticals. In some cases, we found the companies to bring into the fold. In others, we invented the companies from scratch. As you can see from this slide, we have at least 2 companies in each vertical. Lots of blockchain companies talk about the promise and the possibilities of blockchain technology. But these 19 great companies are each focused on getting blockchain products into production. They are doing, not just talking.

Next slide. During the call, we will highlight what 5 of these companies are doing in the blockchain space. We'll start with the crown jewel tZERO. Saum?

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

Great. Thank you, Jonathan. Since our last call, we have made significant progress towards building our end-to-end security token ecosystem. I wanted to start by touching on a couple of the reasons why security tokens are such a compelling advance in capital markets.

Next slide. Security tokens offer issuers a cost-effective way to customize their securities. They provide the ability to automate away administrative costs with smart contract. Provide preferred equity dividends. Make custom voting rights, as well as make utility or loyalty offerings feasible. They also reduce friction costs by eliminating middlemen and automating the compliance of security laws, which can actually be coded into the tokens themselves through smart contracts. Today, this compliance is an annual \$425 billion industry. Security tokens also enhance liquidity of traditionally illiquid assets; private securities, funds, real estate are all examples.

I'm going to turn it over to Patrick now to discuss the opportunity --- really the market size and market opportunity of security tokens. Patrick?

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

Thank you, Saum. The market opportunity is huge. Bob Greifeld, the retired CEO of Nasdaq has said that 100% of the stocks and bonds trading on Wall Street could be tokenized and in 5 years, 100% will be tokenized. He said that to me and confirmed that I can quote him on it. If he's right, this means that the current architecture and plumbing of Wall Street will be deprecated over 5 years and replaced with the architecture of security tokens. And the only thing I would quibble with is this is not just about Wall Street, this is global. And my frequent flyer account testifies to how global this revolution is. The entire world is coming in on this transition.

So that leaves us to ask what's going to be tokenized? If Greifeld is correct and we just consider equities, bonds and real estate, we're talking about \$508 trillion of value would be tokenized.

And now, for example, we know in real estate, there's 3 companies in the United States working on a security token method to disrupt the REIT industry and the same thing is happening with equities and bonds, and the truth is, with fine art, with commodities and with derivatives, et cetera, et cetera. But if we just take those 3 asset classes globally, that's \$508 trillion.

Slide. What would it be worth to create an exchange on which that much security tokenization could trade. Well, if we look at the value of exchanges today around the world and we look at these dozen major ones, they are worth \$129 billion, and they trade \$73 trillion of



assets -- of instruments, and that is a ratio of 18 basis points. And if you look, it's fairly stable with a couple of outliers, but it looks like exchanges tend to run something like 18 basis points of the value of the instruments that trade on the exchange.

So, if we put these 2 last thoughts together and we say if Greifeld is correct and we just see those first 3 asset classes tokenize up, globally, slide, then we're talking about \$508 trillion of things will get tokenized. And, if the conventional rule of 18 basis points holds, that means that the exchanges on which this new world of security tokens will trade collectively will be worth \$900 billion.

Now I can't really stand by anything but the arithmetic here and the assumptions. And is Greifeld correct that everything will tokenize within 5 years, I think within 5 years, all new issuances will be tokenized. But who knows how long it takes for legacy to rollover. But in any case, this is our calculation that shows why we have devoted so much effort and capital to this project because we think it is a very, very large payoff that we are pursuing.

Slide. this slide shows that we are so far in front of the pack as we've been at this for 4 years. We have accomplishment after accomplishment, both in mechanics of the trading platform and the work with the SEC to get various things done such as filing, S1s and S3s and getting blockchain securities actually issued and actually trading on a platform, and now you see that we are in a JV with a lit U.S. exchange, the Boston Options Exchange. And we aim to have, by the end of this year, our joint venture live with them. So that's our list of accomplishments, with our competitors, you have to do your own research and see how many checkbox they get. We think that out of all those question marks, there are may be 2 or 3 that could be a checkbox. But when it comes to actually moving the ball forward in this field, I don't think there's any argument that we're not just the leaders, we're so far ahead of the pack.

Slide. In addition, we've received -- since we last spoke, we received a wonderful patent on the work we've done. It's on the integration of crypto -- of blockchain digital assets with the legacy financial system. We are pleased with both the breadth of this patent. And in our view, it's quite a foundational patent to this field. So now I've explained to you why we think the opportunity is so big and how big it is, and that we have built something that is far ahead of the pack in pursuing that opportunity, and we have gotten the patent on it.

Now let me turn it over to Saum to explain more specifically what is this thing that we've built.

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

Okay. One our last call, we showed you this diagram of the blockchain-based security token ecosystem we're building. This system allows issuers to raise capital through token offerings, the trading of security tokens on our ATS as well as our JV exchange and allows investors to participate in offerings and secondary trading.

Next slide. In this version of the diagram, we show components of the system that have been completed, including the launch of our ATS, which is trading Reg D and Reg S security tokens, the trading platform front-end and back-end, as well as the integration of third-party broker-dealers such as Dinosaur.

Next slide. This diagram shows a more detailed view of the system architecture of our ATS and trading platform, but with the names of the modules removed. Note that the 2 gray boxes on this are technologies we acquired through SpeedRoute, which were also modified to support security token trading.

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

I would like to put a footnote on that because Saum is so modest. But let me emphasize this, the silver boxes you see there, that's what we bought in SpeedRoute and PRO Securities, that's the piece of the Wall Street that we bought. All the colored boxes have been a Manhattan project of development that Saum has organized and done a superior job with. Go ahead.

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

Next Slide. Okay. You can see in the blue boxes additions to the ecosystem that are actively in progress. These include the issuance platform to power STOs or security token offerings, integrating a third-party issuance platform to bring additional tokens onto our trading system, as well as starting the work to file to be our own retail broker-dealer so that investors can trade directly on our mobile app. We are also integrating additional broker-dealers. These additions will significantly increase the number of tokens on our platform



and enhance their liquidity, which will be a crucial next steps towards scaling tZERO.

Next slide. We have a highly experienced leadership team comprised of the right mix of capital markets, legal and regulatory, as well as product and technology. I'd like to highlight the bottom section, which shows the various blue-chip companies that our team has experience in. Also, since our last call, we have appointed President, Steve Hopkins, who previously served as COO of Medici Ventures. He's a strong leader and entrepreneur, and he's the kind of person who gets things done.

In addition to Hopkins, Elliott Grossman, who you see there next to Patrick at the bottom, has just signed an offer letter to join us as the CEO of our retail broker-dealer. He has 14-plus years of experience in capital markets and specifically in the retail brokerage space. He's joining us from our partners at Dinosaur Financial Group.

Next slide. We have made significant progress since Q3, when we last spoke. We issued our tZERO security token on October 12. We open-sourced our token protocol to open it up to global contribution. We acquired Bitsy, both to expedite our time to market of crypto trading through our application. They have a strong wallet built with biometric login, which is really going to help accelerate our time to market. And eventually, that will tie into our brokerage app, which will trade security tokens and traditional equities.

As mentioned, we were awarded a broad patent for the trading of digital assets and their connection to traditional capital markets. And finally, as promised on January 10, we started onboarding investors followed by secondary trading on January 25.

Next slide. As we transition from tech build to growth, the next steps for the company are to onboard quality issuers and tokens through, our own business development team, strategic partnerships, as well as third-party issuance platforms. Expand the investor base and liquidity. This will be accomplished through launching our own retail broker-dealer, as well as integrating other third-party.

We will launch our crypto trading app. We will enhance and scale the DLR or Digital Locate Receipt platform, having concluded the alpha testing period for that, and the additional tech stack now being available post the trading platform going live. So we really plan to scale that team up and launch the next phase of our DLR product.

We are also aiming to launch BSTX, as Patrick mentioned, the first national exchange for security tokens through our partnership with Box Digital. And finally, we plan to expand internationally through joint ventures and technology licensing using the Software-as-a-Service model.

Next slide. This is again an update on our product roadmap, which we have shown in the past. Having focused on delivering our token trading system, we are going to have a brief delay in launching the automation of our issuance business as well as launching traditional equity trading in our app. And part of the latter of that is because we're -- we had to hire the right talent which we mentioned Elliot Grossman coming onboard, but also (inaudible).

And as stated before, since our last call, we've launched secondary trading on our ATS as well as the token trading platform back-end and user interface, which are highlighted in green.

Now I'm going to turn it back over to Jonathan to highlight some of the other companies in Medici's portfolio.

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

Next slide. Saum, thank you. I love what you're doing and building at tZERO. It's just fantastic. And I hope our shareholders can see why I often refer to tZERO as our crown jewel. Rest assured, I think many of the Medici Ventures companies have great potential.

We will now briefly discuss 4 others: Medici Land Governance, Bitt, Vinsent and Voatz. Patrick, tell our shareholders about what Medici Land Governance is doing.



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

Thanks, Jonathan, love to. We're particularly proud of this, and I believe it's another potential monster like tZERO. 7.5 billion people live on earth, 2/3 or 5 billion live outside the world of formal property rights, as we know it. It is possible to use a combination of blockchain, mobile app, social media and AI to bring rule of law to those places. We are working hand-in-hand with the World Bank, have projects going in Zambia and Rwanda. There's just been an expansion of the project in Zambia as well as we have related projects going with Teton County. Jackson Hole is having us put on the blockchain, all their records. We're doing another project in Mexico around Tulum with indigenous people that may expand and the World Bank is, frankly, taking us all over the world to make introductions for us to do projects. It's really a matter of how quickly we can build the modules and spin them up. So, we are excited about this. I think it is actually a project with as much possibility as tZERO. I'll leave it at that. Jonathan?

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

Patrick, I, like you, think Medici Land Governance will change the world and with product already in production, it could be a real rocket ship.

Next slide. Let me talk next about Bitt. Bitt has a great product in production with its mMoney wallet, which allows people to send, receive and store digital money. Thousands of people in Barbados are already using mMoney wallet to make payments and get paid.

I hope everyone on the call saw the March 6 news Bitt announced. The Eastern Caribbean Central Bank and Bitt signed a watershed contract to conduct blockchain-issued central bank digital currency pilot among the 8 nations of the Eastern Caribbean currency union. This pilot is the first of its kind and will involve a securely minted and issued digital version of the EC dollar. In other words, this is the first time that a central bank has agreed to issue its fiat currency in digital form onto the blockchain. That's a big deal.

The digital EC dollar will be used for financial transactions among consumers and merchants, including peer-to-peer transactions using smart devices. What does that mean? Let me give you a concrete example. An individual on St. Kitts and Nevis will be able to send digital EC dollars securely from her smartphone to a friend in Grenada in seconds and at no cost to either party. This is a big deal. It goes a long way towards banking the unbanked in the Caribbean and the rest of the world as we get other countries to lineup to talk to Bitt.

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

Incidentally, the average vig on international payments for consumers is about 15%.

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

So again, big savings for individuals, changing lives in a meaningful way.

Next slide. Vinsent is an Israel-based company reinventing the way wine is being bought, owned and experienced. It's tackling inefficiencies in the wine industry distribution model by connecting consumers directly with wineries and ensuring the providence of wine. Globally, the wine industry is a \$300 billion market. It turns out that when it comes to high-end wine, estimates are that 1/3 of the market is fake. Some of you may have seen the stories about Bill Koch spending \$35 million investigating fake bottles of wine purchased for his collection. Vinsent solved that problem using blockchain technology to track providence of wine. It also allows wine lovers to buy wine and wine futures directly from wineries.

Next slide. Last week, the Vinsent app went live on both Apple and Android. You can see from some of the screenshots the live app on this slide. I would encourage all of you to download the app and give this product a try.

Next slide. Let me turn to Voatz, a Boston-based company using blockchain technology to allow for safe and secure mobile elections platform. After a very successful pilot in the 2018 midterm elections in West Virginia, on March 7, Voatz announced that the city of Denver will be using the Voatz application to provide mobile voting secured by blockchain to deploy military personnel and other United States citizens living overseas during Denver's upcoming municipal elections this spring. I think the next thing that you should expect from Voatz is the product being used to help the disabled vote more easily under ADA rules. Again, here's one of the Medici Ventures companies with a blockchain product in production and being adopted and used in a way that is improving people's lives.

Patrick, I'll let you talk to the next slide on Ravencoin.

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

Thank you. Ravencoin is an open source project towards which Medici Ventures has been especially supportive by contributing labor and mining. The mining of this coin has spread faster than any coin in history. It's 14 months old. The community is very active. We've been supportive of this open source movement, although we only own a single-digit percentage of Ravencoin, it's not just the value of the coins that we find attractive, it is the elegance and robustness of the Raven protocol for digital assets going forward.

Next. Raven has a role to play in a number of these Medici companies. It's been designed and developed as the perfect protocol for digital assets, has significant advantages over both Bitcoin and Ethereum. I think you'll be hearing very significant news about Ravencoin shortly, perhaps as early as this week. It plays a role in the number of the companies, in which we're involved. And as you're seeing in front of you here, if you know the business model of consensus, one could say that Medici Ventures has a similar business model. But where consensus is purest about using Ether, we are not purest about using Ravencoin. But there are 4 or 5 companies in there at least that look like they will be making use of Ravencoin. Jonathan?

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

So while Patrick started the Medici portion of the call by talking about the Chinese character for the word country, let me end this portion of the call by talking about a well-established and successful Japanese system of business, keiretsu. Keiretsu are networks or families of corporations that often have interlocking interest in one another and they work together in performing different functions. This is what we are building in Medici Ventures. We have not assembled these companies in a harum-scarum way. There has been careful cultivating in adding each company, and we see that beginning to bear fruit. For example, we had the Medici Ventures companies at our Peace Coliseum headquarters in January to focus on finding ways for the companies to work better with each other. Several of the companies found ways to work with each other and leverage each other's technology. The products that they have been developing individually are starting to reach critical mass collectively. We think Medici Ventures is building a nice keiretsu that will help blockchain technology change the world by getting blockchain product into production.

So now let's talk about Retail, Patrick.

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

Thank you, Jonathan. Now let's talk about the Retail business. I'm going to set the stage by reminding you what's happened in the last couple of years. Slide. This is our record of profitability, which I think is practically unique. GAAP, profitability from our B2C e-commerce business. This shows how we divert from that model to follow revenue growth-focused, high-loss competitor. Additionally, all of this went on in the context of a deterioration that began 2 years ago in March 2017 and we're showing you here 1 year of deterioration from March 2017 to March 2018. We've never seen a business take a hit like this in its organic traffic and survive.

Slide. Given the emerging competitor and the organic traffic deterioration, what we decided to do in 2018 was, first, to hit full throttle on advertising and then somewhere in the second quarter even hit the afterburners. We did this and showed in fact that we could get our business growth up over 20%, approximating Wayfair's level.

Slide. We lost a bundle of your capital on that, and I'm sorry about that. What we came to realize through this chart is -- this shows the fixed cost of our Wayfair competitor in purple and then the line -- the dotted line is what they have to pay the fixed cost, which is to, say, gross profit minus advertising with this metric contribution, which we're always talking about. And we realize we had a competitor doing this. We know that the world sees that this -- as these 2 lines are going to meet some day, and maybe they will meet some day. There is, I acknowledge, some amount of capital that will support this until those lines meet in some non-Euclidean space. But in the Euclidean space in which I occupy, I realized it was a mistake to try to chase this competitor, and we had to revert to our DNA, which is focusing on value and running the company for profitability.

So with that, I'm turning it over to Seth.



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

Thank you, Patrick. In our second quarter and Q3 earnings calls, we outlined our plans to return Retail to growth in contribution and said we expect the growth to accelerate in Q4. We're happy to say that did happen in contribution of \$33 million in the fourth quarter, and we are even more happy to say that we have seen a seasonally unusual sequential increase in contribution outlook in Q1 all the way up to \$37 million.

You'll see on the next slide that translates into adjusted EBITDA improving to \$19 million in the fourth quarter loss and a \$10 million loss in the first quarter. We believe adjusted EBITDA will continue to improve sequentially in the second quarter in spite of that being our seasonally weakest quarter of the year.

You'll also remember from our last call that we said our strategy to improve contribution was to reduce acquisition costs through a combination of improved organic traffic and more efficient paid marketing.

Patrick pointed out, on the next slide, that when it comes to SEO, when one is recovering, you first see movement in the top 100 results in Google, but where nobody actually looks. But then as search engines pay attention to you, that moves into top 10 and top 3 results where you actually generate traffic and revenue.

So, with that, we're happy to show you this graph on the next slide showing continuous improvement since the last time we spoke in October in Keywords Ranking in the top 10. That's bringing in revenue and traffic to the business as well as on the next slide an even more pronounced improvement in Keywords ranking in the top 3.

Finally, this next chart describes monthly gains and losses in top 3 Keyword rankings from another popular third-party tracking tool. You'll note that after 16 months of deterioration in 2017 and the first half of 2018, we've now posted 6 consecutive months of ranking improvements.

We're increasingly confident that we've identified effective strategies to recover our ranking. And you'll note that on the previous slide, simply returning to 2017 levels is enough to generate massive contribution improvement. March is the last month where we face headwinds in our comps for SEO rankings. And if we continue to see these positive CAGRs and ranking improvements, one can model out the significant contribution upside there is to our current run rate as the year goes on.

Now the other side of our contribution improvement strategy is to improve the retention of our customers and the biggest single driver of retention is our loyalty program Club O. You'll see on this slide, we saw continued growth in the number of paid subscribers in the program since our last call and are pleased to report that the subscriber base -- paid subscriber base, I should say, is up 36% year-over-year. This allows us to harvest more of our revenue from retained customers rather than being reliant on continued expense of acquisitions.

Finally, on the next slide, you'll see, in addition to the 66% improvement we've seen in Top 3 Keywords rankings since the start of October, we've also made major progress in enhancing the shopping site and the conversion of our website. Our mobile site and app have won best-in-class awards from eTail, Mobile Star and the Mobile Web Association. And Loyalty360 recently awarded us their best-in-class award for customer experience strategy.

Also, of particular note, we received recognition from the ABBI Awards for the best multiscreen campaign. This is a really meaningful award that traditionally goes to major brands like McDonald's and other icons of the advertising industry.

So on the next slide, there's 2 things that I want to note quickly about retail financials. First, gross margins were somewhat depressed in Q4 and will likely be again in Q1 because of an adjustment we've made in our shipping strategy. We're in the midst of a major rebalance of freight lanes and carrier allocators -- carrier allocations and as a result, are forfeiting some volume rebates we had accrued for. We have modeled out the adjustments and noted they're accretive to gross margins over the full year, but hurt in the near term as we lose those rebates. So our gross margin headwinds in Q4 and Q1 period that we've shown here, you'll see that reverse and freight becoming a



tailwind to gross margin in the back half of 2019.

The second is, you'll recall that in our 2018 Q1 earnings call, we showed that by increasing spend at the expense of contribution to invest in growth, we increased our GMV by 17% or 18%. We continued that strategy through Q2 of 2018. And because we are maximizing contribution going forward, we will not be trying to comp the revenue of those 2 unusual quarters. However, by the fourth quarter as comps start to normalize, you can expect us to return to the long-term sustainable top line growth that we experienced through most of the past decade.

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

We'll put 1 footnote on that. Look in the lower left-hand corner, contribution. This is going to be a year of explosive growth, explosive. It's going to be in that contribution number. And we normally don't give guidance, but we're going to be giving you more guidance about this year than in previous years because I want you to be able to see exactly what we're saying we're going to do and follow along from home as we do it.

Next slide. First, we are going to do -- our Retail business is going to do \$115 million better than last year.

Slide. Well, that's an ambitious sounding goal. It decomposes into 2 other goals that are quite achievable. One is an \$82 million improvement in that contribution number, and one is \$33 million better on expense management. Remember those 2 numbers, \$82 million and \$33 million, if we do each of those and collectively we do \$115 million better. How plausible is that we can do those? Well, on the \$82 million number, slide, what we are saying is we're going to be taking contribution from \$78 million back to at least \$160 million. As you can see in the context of previous years, that should not be as implausible as it may sound, although it is 105% growth. You're not going to have to wait the whole year to check me on this. I'm telling you, in the end of the first quarter, you're going to see that -- you're going to see us approaching those kinds of rates, high, high double digits. And we'll be maintaining through the second and third quarter, well over by the end of third quarter, we will be -- by the end of the second quarter, we'll be far over 100% growth maintaining through the third, and I think that we will maintain 105% for the year, which gets us to \$160 million. And I actually think there's upside of \$10 million to \$20 million to that number.

Go forward please. Next, on the \$33 million in expense savings, we have already taken out basically 25% of our G&A. This was partially a result of -- as we hit the afterburner strategy and as we followed that path, we did swell in preparation for that strategy and having cut that strategy, we reversed course. But in addition, we're getting a huge payoff now from all of our machine learning and artificial intelligence and technology that we have built over the last couple of years. So, we actually feel quite comfortable with this number. And so, when I tell you that we're doing that \$82 million better on the contribution or \$33 million better on G&A, this isn't pie in the sky, hockey stick stuff. This is stuff -- to be honest, about 80% to 85% of what I'm telling you, the improvement we can make this year, we've actually already achieved 80% to 85% of it. Okay.

Next slide, I'd like to turn it over to Greg to talk about how we'll be discussing numbers going forward.

Gregory J. Iverson *Overstock.com, Inc. - CFO*

Thanks, Patrick. I'd like to spend a minute discussing our operating structure and how we leverage our resources to support our businesses.

Clearly, Overstock has evolved over time, moving from a single retail business to a portfolio of businesses that includes retail and blockchain companies within Medici. As the business has evolved, we have evolved our administrative functions to provide efficient and scalable services to support our businesses.

Next slide. These services, which we refer to as "Inc" include finance & accounting, legal, human resources and facilities. Historically, we have allocated substantially all of these administrative costs from retail. So as you look at our historical financial data by segment, these administrative costs are all reflected in the Retail segment.

Next slide. Beginning in 2019, we plan to allocate the cost of these services to business units based on estimated utilization, which we

currently estimate are about 2/3 for Retail and 1/3 for Medici, which includes tZERO. So, beginning in our Q1 2019 reporting, you will see increased expenses in our tZERO and other reportable segments with corresponding decreases in expenses for Retail.

The next slide that Seth will be discussing reflects this planned change in our allocation approach.

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

May I first put a footnote on that. You should know that potential acquirers have wanted to understand retail on a stand-alone basis as well. Seth?

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

Absolutely. So, with that, let's jump into looking at the results as they're coming this next year. Patrick mentioned that we plan to improve retail-adjusted EBITDA by \$115 million, and this chart helps illustrate why we feel that number is attainable. First, you'll see in the black line that we've already improved from a 2018 monthly contribution average of just over \$6 million to an outlook average monthly contribution in Q1 of over \$12 million.

On the next slide, you'll see that based on the automation activities we discussed throughout 2017 and 2018, we have been able to steadily reduce the amount we have to spend on both headcount and outside software vendors that operate our business. After all the restructuring costs we incurred in Q1 clear, the end of quarter operating -- cash operating costs appear to now be at a run rate of under \$13 million.

On the next slide, you'll see that we expect operating expense to continue to improve going forward, mostly as a result of software contracts we intend to cancel reaching the end of their term and correspondingly lowering cost for us. Likewise, we believe we'll make additional improvements in contribution based on a number of the factors we discussed earlier, including continuing improvement from SEO, optimization in our freight plan returning to our gross margin and other efficiency improvements in marketing and elsewhere in the business.

While Q2 is seasonally the softest quarter for contribution, the reduction in OpEx will return us to a cash flow positive position in the third quarter. Taken with the improvements in contribution, we believe it will generate significant positive cash flow in the fourth quarter. And as Patrick said that we believe given continued robust improvement in SEO like we see in the past 6 months, there's actually significant upside to that number.

So, with that, let's go ahead and turn to a discussion of strategic alternatives. As we said in previous periods, we believe separating the blockchain and retail businesses will unlock value for shareholders. We continue to believe that a hybrid of our retail business with the right brick-and-mortar and web property is the best long-term model for us and our process to do so is ongoing. We're seeking the right structure and valuation to ensure we maximize shareholder value for what we believe are valuable retail assets. That being said, we have to operate the business as if we're going to own it forever. And when we say that, what we mean is that a business that's healthy and generating cash is far more valuable for potential buyers than one with cash costs just as it's far more valuable for us. We know this recovery plan that we announced in Q3 and that you're seeing actualize in these results makes the business more attractive to the buyers with whom we're speaking and as we continue to work with them to find the right deal.

Finally, for those who didn't see our recent 8-K, on the next slide, we announced an MOU with Makara and GSR, outlining the structure for them to co-lead a \$100 million investment in tZERO content. While an MOU is obviously not the announcement we wanted to make, we are encouraged by what was outlined there and by our experiences with Makara. Makara focuses on investments in companies with defensible IP and have an interest in establishing operation in Singapore, which is a real plus for us. Singapore is an attractive business friendly market for our industry. They also have a great history of investing in Fintech and in facilitating key business relationships between their portfolio companies and with their strategic partners. We've also hired advisers to help facilitate our work with them and also to help us pursue alternatives in parallel.

So, with that, I'll turn it over to Patrick to really summarize [2018].

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

Thank you, Seth. We've picked 5 slides out from the presentation that you've seen. A is the vision of Medici and it is a huge vision. Medici has the vision of being able to provide government as a service that is incorruptible and efficient and can bring governance to 2/3 of humanity that is outside of it. Just 1 layer in that tech stack, the layer on capital markets, we think, is aimed at an opportunity that is \$900 billion. C shows how far we are towards achieving that, and we are farther than anyone else who's trying to pursue that idea. And D, you see that this tZERO, while a monster opportunity in itself, is just 1 of 19 companies. I think that there's at least 3 in there that represent similar-sized opportunities to tZERO. And as Jonathan says, these were not collected harum-scarum, these conform to an overriding vision of what's the high ground that one wants to occupy in this new age.

Lastly, on Retail, while we know last year was disappointing, I made the mistake of trying to compete on the same terms as our main opponent. That was a terrible mistake. We've returned to our normal way of operating the business and that's being about profitability. This year, I'm committing that we will generate at least \$10 million of positive operating cash flow from the Retail business. And the fact is I think that there's some significant upside to that number. We've set this -- the fact is that we can do that and that it's set up, so we can make significantly more next year is the prudent thing to do. But that does not affect our strategic vision that the right thing to happen is that we should be scaling someone else's e-commerce with this exquisite technological jewel that we have built here. Thank you very much. Let's go to questions.

QUESTIONS AND ANSWERS

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

So on the next slide, let's go to questions. We've got about 5 or so minutes left to answer several questions, so we'll try and be quick. The first question has to do with Retail. What did we learn in the Retail business from customer day, one of our big one-day sale in Q4?

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

J.P., why don't you take that?

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

Great. Thanks. So the first learning there was that it greatly exceeded our expectations. Customer day was built on the insights from customers on what they wanted most from the day. It was by far our largest non-holiday revenue day we've ever had and had strong customer engagement including Club O signups. It will likely start challenging both Black Friday and Cyber Monday in the future years for the largest day of the year. We derived many learnings from this day that we've baked into this year's customer day as well as promotions throughout this year. A few of those learnings are: Unique ways of leveraging anticipation prior to the event; new integrations of social validation and style trends; and finally, a broader coverage of and inclusive offers for our Club O loyalty program. Overall, it was one of the strongest days we've created and we'll create an even larger day this year.

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

Right. Good learnings, good action. So Patrick, start talking about the status of the Retail sales. Why is the process taking so long?

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

Well, look, when we started this, Andy Taussig at Guggenheim, when I asked him a question like how long is this going to take? He said, Byrne, this is like a soufflé. It's -- selling a company is like a soufflé. You can't yell at the soufflé. You can't ask the soufflé when it's ready. The soufflé is ready when it's ready. And you're stage managing a whole bunch of things together to make the soufflé come out. So all I can tell you is while I initially had that same sense of impatience, I now get, this really is like preparing a soufflé, and the soufflé is ready when the soufflé is ready.

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

Right. Patrick, another question here directed to you. Overstock is now on the Reg SHO threshold list. Short interest is over 16 million shares. Something is clearly going on here, what can we say about this?



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

Well, I know what I would have said. Once, I would have said that our national market system lies on top a settlement system that is a pig's breakfast of compromises and slapdash solutions to problems that evolved back in the '60s and '70s. And the truth is you may think you're a shareholder in some company and you own nothing. You own contractual claims from corporations you've never heard of, who actually own everything. We think that -- so other than that general answer, which is a pox. I'm saying a pox on the whole national market system, my only solution is, we've created an alternative.

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

And Patrick, I guess, I would say, anyone who's worried about it, look at tZERO. And any company that's worried about showing up on the Reg SHO threshold list, look at tZERO. That's the exchange that can be a good solution to this. Speaking of tZERO, Saum, we've got some questions about tZERO. How are you able to launch the ATS for tZERO so quickly? And how should investors think about the trading activity on the tZERO platform?

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

Great. Well, a lot of late nights and weekends. That's how we got it done. No, but I think the team and leadership really came together and did an excellent work on project management and making sure we hit the timeline. As far as investors and trading -- and thoughts on the trading activity on the ATS, I'm actually very pleased with it. This is the beta launch for an alternative, blockchain-based capital markets, and we actually see decent trade volumes for the fact that it is -- right now, limited to accredited investors. In August that opens up and we expect volumes to really spike. We're also onboarding additional tokens. And so I just expect things to just incrementally get better and better.

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

So Saum, let's talk about onboarding additional tokens. Do you think some of those will be tokenized in real estate?

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

Yes. Real estate, we're -- so we're in talks with a lot of companies that want to do token offerings, and real estate happens to be one that's really. Actually, probably, the largest area we've had an outreach is in the real estate sector.

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

Largest and most advanced companies. There's companies -- there's somebody working on revolutionizing Hollywood finance and there's companies working on high-end art, but the real estate -- the REIT people, who are bringing security tokens to REITs are really probably the leading group.

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

Yes. Real estate, funds, and then maybe private securities.

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

Where do things stand with BOX and what's the timing on getting that token exchange launched?

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

The BOX JV is essentially going to leverage the same technology we've built for our ATS. There may be some work there, but for the most part, the tech is complete. It's really the rulebook that's in progress. And so that's kind of the main gating item. But as we said earlier, the plan is kind of late 2019, tentatively.

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

And I know you addressed this a little bit when we were going through the slides, but why was it the right decision for tZERO to acquire Bitsy and for Bitsy to join forces with tZERO?



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

Yes. I think there were a lot of wins there. So the biggest that I stated was speed to market and getting our trading app live, which is going to be the same app that is leveraged for our brokerage once that's live, but it also gave us a lot of functionality, like the wallet, like key recovery, like biometric login, which I don't think a lot of -- I don't know if any brokerage app has, as well as the team that we got. Steve Hopkins being a good example, as our company President.

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

Okay. We're wrapping up. I got 2 more questions. Seth, Makara Capital. Who are they? Why are they the right strategic partner for tZERO with the MOU?

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

Yes. We are really encouraged by Makara and have been impressed with our conversations with them. They are a very tech-forward company and they are really focused on bringing great Fintech to operate in Singapore, which is really a prime destination for us and probably on top of our list, a place in which to expand tZERO. So we think they are a great strategic partner to help facilitate that, and they're also very sharp and real veterans of both Wall Street and overseas finance. We think we'll be great advisers in that regard.

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

On the Medici front, a question came in. As the Medici companies sign more deals, when will they start to generate revenue? I would say almost all of the Medici companies are generating revenue. The ownership structure means not all of them rise up into the Overstock P&L. We're really pleased with the progress of each of the Medici companies. And then the last question is what's the criteria Medici is using to bring companies into the fold? I think we explained that. We're really trying to create government as a service, create a keiretsu type structure, where people -- companies work together and benefit from each other.

Patrick, before we sign of, anything you want to tell our shareholders after this year?

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

Last year was a tough year, we -- well, it was a year where we set out saying what we were going to do and we did exactly that. We hit the afterburner and accelerated, decided the game isn't worth the candle, going to return Retail to spitting out cash. And meanwhile, we have a pole position on the crypto revolution that's going to change history.

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

We thank our shareholders for listening. We're going to get back to work, trying to add value to your investment. Thanks a lot.

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

Thank you.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude our program, and you may all disconnect. Everybody have a wonderful day.

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