



Buy Presentation

Consumer Retail

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November 5th, 2014



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Business Overview



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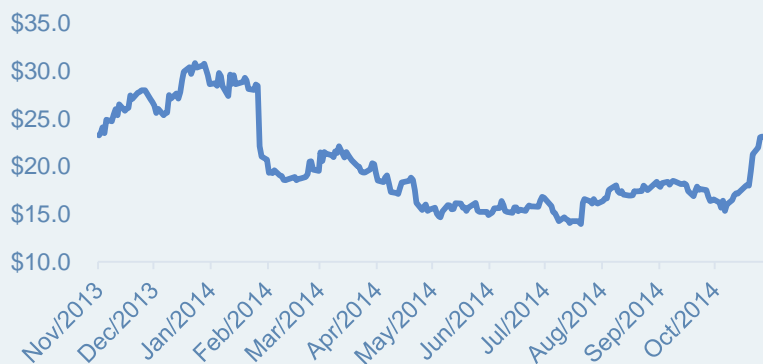
Business Overview

Overstock is an e-commerce online retailing company that offers a wide variety of high quality products at substantially discounted prices

Business Overview

- Offers discount brand name, non-brand name and closeout merchandise
- Provides manufacturers one-stop liquidation channel to sell off excess inventories without disrupting sales through traditional channels
- Also sells direct to the end consumers using its own brands

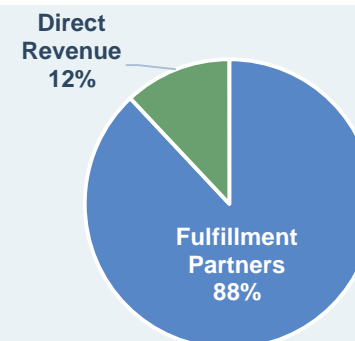
Stock Performance



Key Financials

| | |
|------------------|-----------------|
| Tickers | NASDAQ: OSTK |
| Market Cap | \$556M |
| Enterprise Value | \$441M |
| Current Price | \$23.12 |
| 52 Week Range | \$13.82-\$31.47 |
| EV / Revenue | 0.3x |

Revenue Breakdown



Business Overview



Overstock acts as a middleman and the seller, providing quality products at a discounted price

Fulfillment Partners



- **Sell merchandise of other retailers or manufacturers through Overstock's website**
 - 2013 gross margin is 20%
 - Overstock is also focusing more on Fulfillment Partners on a YoY basis

Direct Revenue



- **Sales made to individual consumers and businesses, fulfilled primarily from Overstock's warehouse**
 - 2013 gross margin is 13%, an improvement from 9.6% from the year before

Business Overview

Overstock proposes an array of quality product lines that allow customers to correlate their lifestyles with their product offerings

Product Offerings and % of Wholesale Revenues

Home & Garden: 72% (66% 2012)

Electronics: 4%

Jewellery/Clothing/Accessories: 13%

Other: 11%

Technology Expense

Year to date: \$22.5M

28% increase

Overstock is expanding beyond the United States border while investing in R&D to introduce a new revenue stream by 2015

Investment Thesis

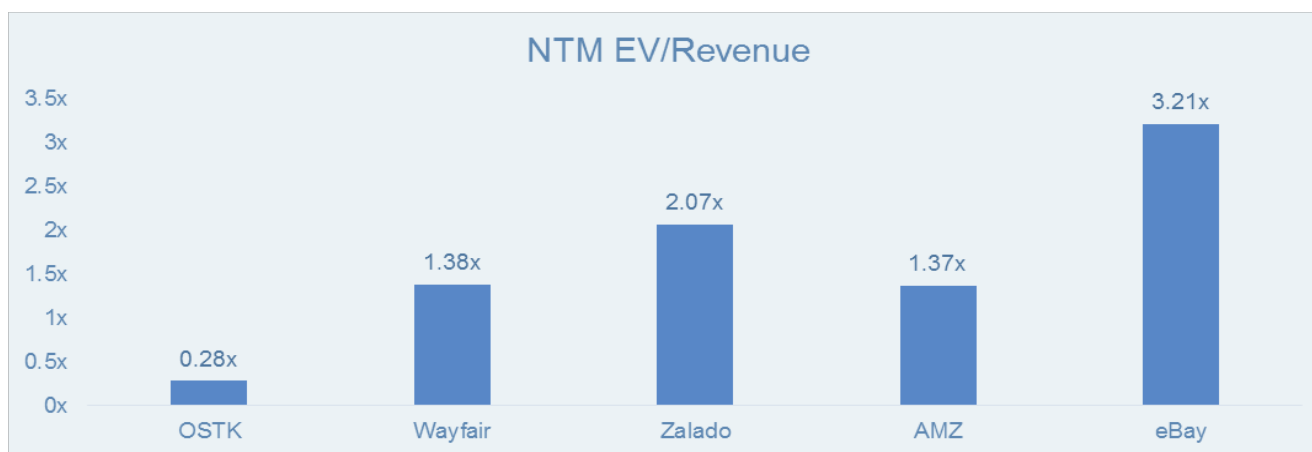


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Overstock is severely undervalued given investors' misunderstanding of its business model

Depressed Multiples

- **Investors are valuing Overstock at a very low multiple given its low margins**
 - Investors have misunderstood the business model and have over-reacted to past earnings misses
 - Other comparable e-commerce websites with similar margins and growth are trading at much higher multiples
 - Wayfair and Amazon, two close competitors and peers that are not profitable, still trade at much higher multiples



Overstock is severely undervalued given investors' misunderstanding of its business model

Temporary & Non-fundamental Factors

- **Missed past few quarter earnings estimates as the company ramped up technology expenditures to drive long-term revenue growth and acquire users**
 - Technology expenses increased 28% YoY
 - Q1 2014 earnings missed estimates although revenue and gross profit improved due to these expenses

- **The significant discount has not been driven by the fundamentals of the business, but rather external and temporary factors**
 - The recent decline in Bitcoin has lead to short-term volatility of Overstock's share price due to herd mentality and investor over-reaction
 - Bitcoin only accounted for 5% of total revenue in FY 2013
 - Decline in the value of Bitcoin has no impact on the revenue generating potential of the business; it only provides additional revenue streams that only benefit Overstock

Overstock is focusing on many KDI's that will grow margins, revenue and expand multiples, which offers the opportunity for significant upside

Technology Advancements

- **Overstock is focusing on many key development initiatives that will help the company branch out of its current online retail focus, and more into technology/software**
 - Overstock has been incorporating very high expenses temporarily as they push into software development and marketing to fuel international expansion which will pay off with a higher ROI in the future
 - CEO Patrick Byrne has been pushing for technology developments such as “Supplier Oasis Fulfillment” and “Medici” software
 - As one of the first large e-retailers to begin accepting Bitcoin, Overstock just expanded acceptance of Bitcoin to international community, which will be even more accretive to revenue and earnings
 - Overstock has also been spending a lot on R&D and recently hired the founders of Counterparty to begin developing an exchange that would allow companies to sell crypto-securities to the investing public (Bitcoin, but for stocks) over the internet



Overstock is focusing on many KDI's that will grow margins, revenue and expand multiples, which offers the opportunity for significant upside

Supplier Oasis Fulfillment

- **SaaS platform for any retailers to use for back-end e-commerce**
 - Full-service system for any suppliers in the early stages trail period; currently has around 100 suppliers in the pipeline
 - Allow sellers, suppliers, and partners to strip costs from their supply chain; in return, this will allow more suppliers to list inventory goods in Overstock's website
 - Expanded selection will drive more traffic in sales
- **Competes with Amazon Prime at a significantly lower cost**

Medici

- **Cryptosecurity stock exchange**
 - Allow companies to issue corporate stocks over the internet based on the bitcoin block chain
 - Hired Perkins Coie and Counterparty to gain expertise in regulation
 - Plan to launch in 2015 and potentially spin-off as a separate technology company later on

Investment Thesis

Overstock is focusing on many KDI's that will grow margins, revenue and expand multiples, which offers the opportunity for significant upside

| | | Description | Impact |
|-------------------------------|--|---|---|
| Insurance |  | <ul style="list-style-type: none">Act as an intermediary in the insurance sales segment | <ul style="list-style-type: none">Potentially high margin business |
| Farmer's Market |  | <ul style="list-style-type: none">Allows shoppers to buy organic and vegan with clear transparency of its origin | <ul style="list-style-type: none">High revenue and margin; faster growing segment with less competition |
| Club O Loyalty Program |  The Rewards Program that Pays for Itself | <ul style="list-style-type: none">Membership which includes free shipping and various rewards to continue driving sales | <ul style="list-style-type: none">Creates customer loyaltyGenerate recurring revenue |

Overstock is poised for growth in the international space while bearing very little risk

International Expansion



- **International expansion will provide significant revenue growth opportunity, especially given that 100% of revenues thus far have been entirely from the states**
 - Will sell to the Chinese market through Taobao.com, an Alibaba-owned website
 - Significant opportunity to achieve economies of scale and grow margins as international expansion will be not capital-intensive or cost-heavy
 - As one of the first large e-retailers to begin accepting Bitcoin, Overstock just expanded acceptance of Bitcoin to international community, which will be even more accretive to revenue and earnings



External Analysis



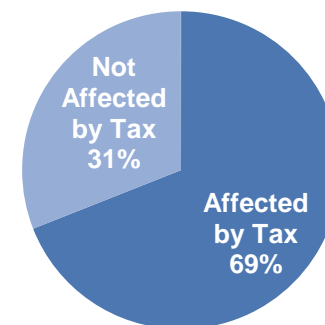
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Overstock will benefit from key industry demand drivers that will grow the sales and demand for their products

Amazon Sales Tax

- Thus far, Amazon is subject to a sales tax in 23 states ranging from 4% - 8% of the purchase price
- Considering the company's recent warehouse expansion, they will experience many more state sales taxes in the near future
- The higher cost to shop at Amazon on a national-scale will drive more customers to cheaper prices for the same products

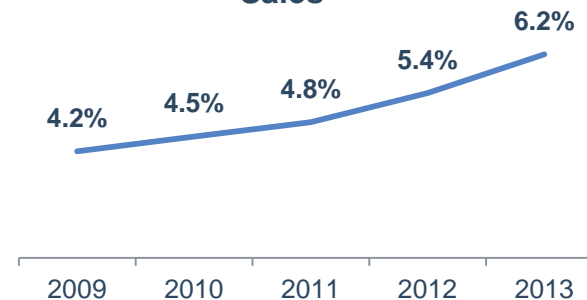
US Online Shoppers



Rising Trend of Online Shopping

- 40% of internet users have made more than one purchase from an online retailer
- Total online sales were up 13% in Q1 2014
- The North American market is the largest generating \$420B
- The Asian-Pacific consumers spend more per customer and are expected to be the leading market by 2016

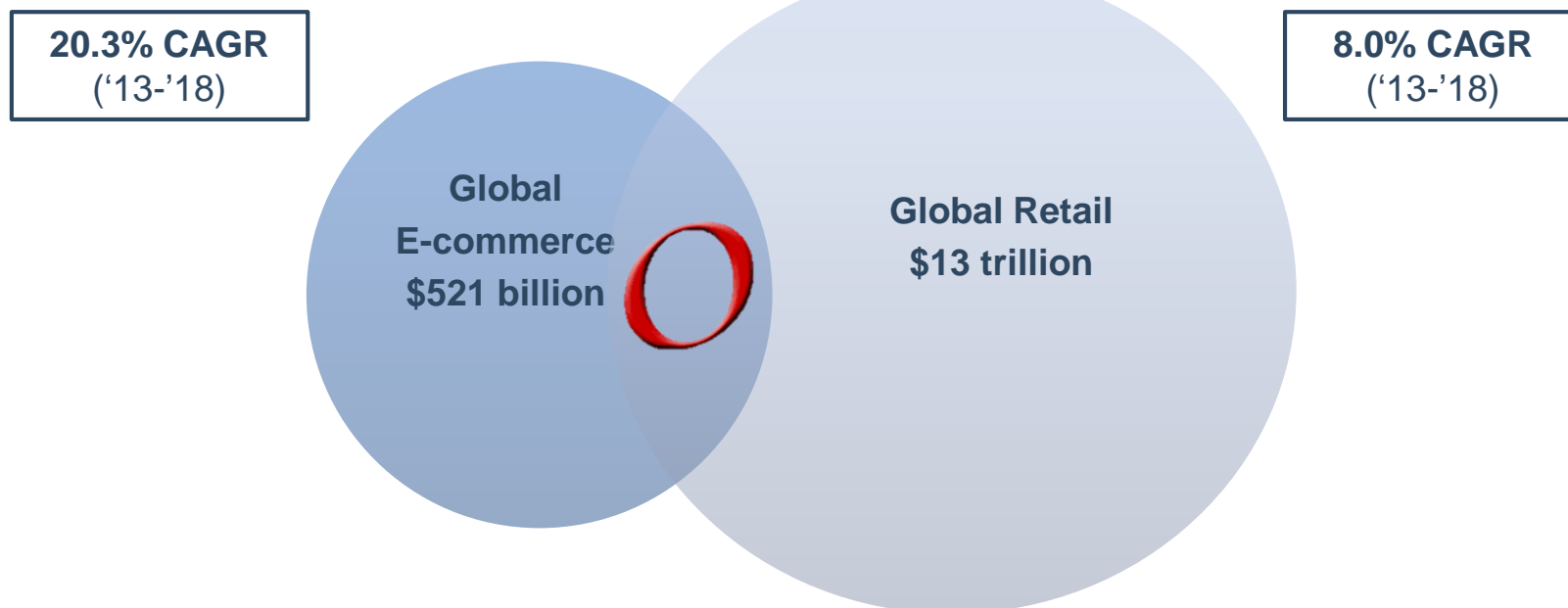
US Online Sales as % of Retail Sales



External Analysis

The e-commerce market is experiencing exponential growth on a yearly basis and it is expected to continue going into the future

E-Commerce Market Opportunity



- Investing in Overstock would promote a significant opportunity to invest in the fast-growing E-commerce industry at a cheap price
- There still remains to be a substantial market opportunity for e-commerce companies

Internal Analysis

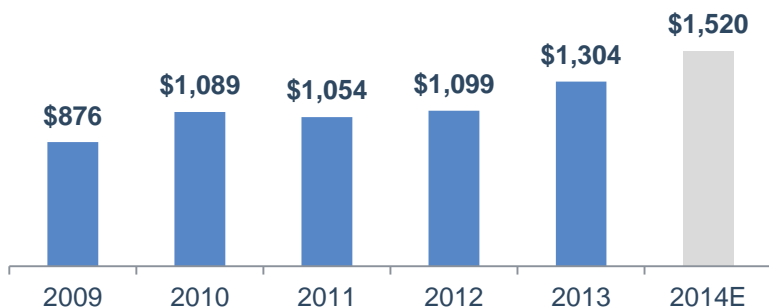


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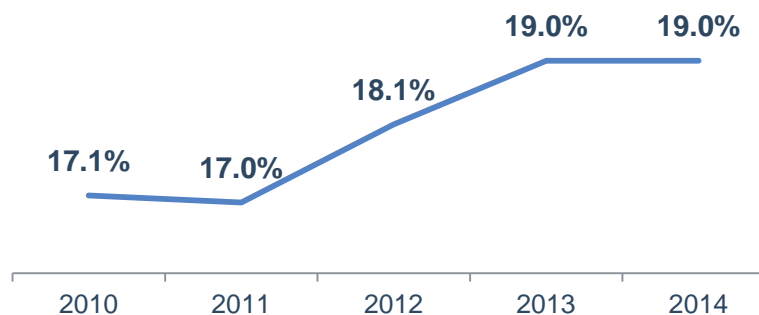
Internal Analysis

Overstock has generated strong financial performance the last few years and offers a substantial growth profile for investors

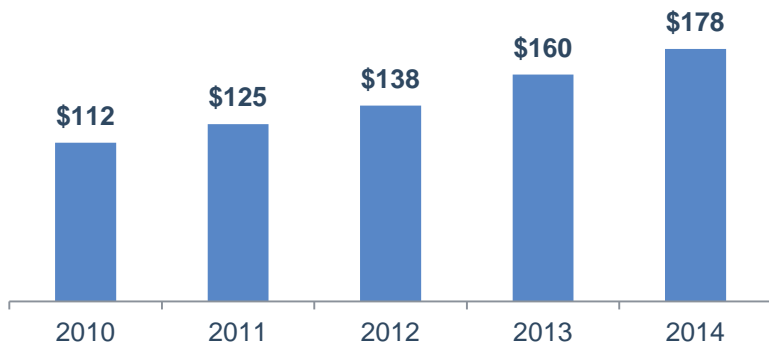
Revenue (in millions)



Gross Margins



Average Customer Order Size



Gross Profit per Customer



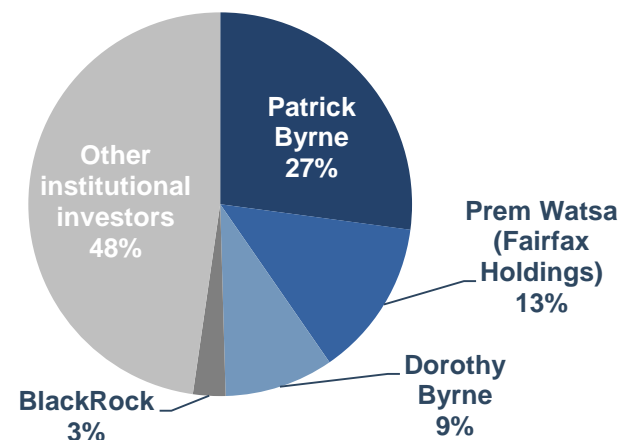
Internal Analysis

Overstock's strong management team is spearheaded by their well-renowned CEO, Patrick Byrne

Management

- Overstock's CEO Patrick Byrne received his doctorate in philosophy from Stanford University
- In 1999 he acquired a majority share in Discount Direct and turned it into Overstock
- Steered Overstock through the "dot-com" bubble and IPO'd in 2002
- Patrick Byrne is the largest shareholder of the company, owning approximately 27% of total shares outstanding

Majority Ownership



Valuation



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Valuation: Trading Comparables

Overstock trades at a severe discount when compared to both mid-cap and large-cap peers in the online retail space...

| Company | Market Cap. (In Millions) | Enterprise Value (In Millions) | EV/Revenue | | EV/EBITDA | |
|---------------------------------|------------------------------|-----------------------------------|--------------|--------------|---------------|--------------|
| | | | LTM | NTM | LTM | NTM |
| Mid-Cap Online Retailers | | | | | | |
| Lands' End | \$1,517 | \$1,898 | 1.20x | 1.14x | 11.80x | 11.06x |
| Williams-Sonoma | \$6,067 | \$5,998 | 1.30x | 1.24x | 9.50x | 8.87x |
| ASOS | \$3,519 | \$3,400 | 2.20x | 1.85x | 43.00x | 31.28x |
| Zulily | \$4,543 | \$4,233 | 4.50x | 2.82x | 179.00x | 57.94x |
| Wayfair (Pre IPO) | \$2,077 | \$1,961 | 1.94x | 1.38x | N/A | N/A |
| Zalando (Pre IPO) | \$4,528 | \$4,144 | 2.07x | N/A | N/A | N/A |
| Mean | \$3,709 | \$3,606 | 2.20x | 1.69x | 60.83x | 27.29x |
| Median | \$4,024 | \$3,772 | 2.01x | 1.38x | 27.40x | 21.17x |
| Large-Cap E-Commere | | | | | | |
| Amazon | \$141,430 | \$137,646 | 1.60x | 1.37x | 35.30x | 18.23x |
| eBay | \$65,224 | \$62,439 | 3.60x | 3.21x | 12.60x | 10.14x |
| Mean | \$103,327 | \$100,043 | 2.60x | 2.29x | 23.95x | 14.19x |
| Median | \$103,327 | \$100,043 | 2.60x | 2.29x | 23.95x | 14.19x |
| Overstock | \$555,500 | \$442,800 | 0.30x | 0.28x | 24.40x | 9.57x |
| Overall Mean | \$28,613 | \$27,715 | 2.30x | 1.86x | 48.53x | 22.92x |
| Overall Median | \$4,536 | \$4,189 | 2.01x | 1.38x | 23.95x | 14.65x |

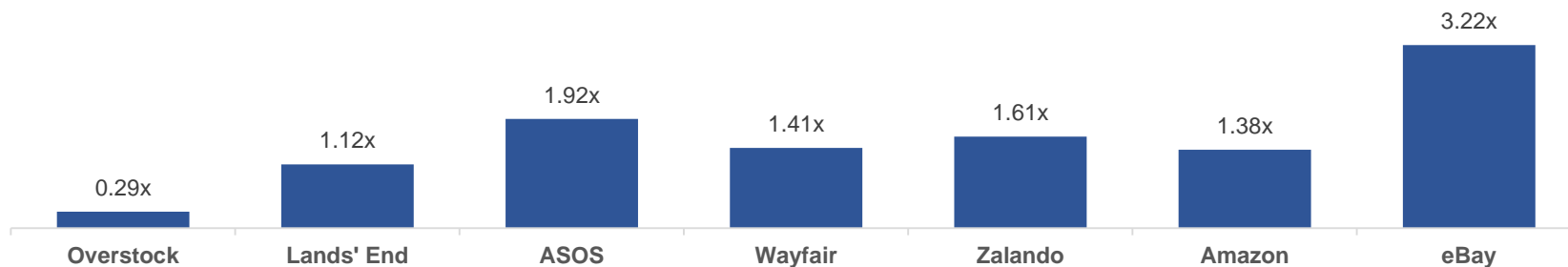
Source: CapIQ

Note: As of October 31st, 2014

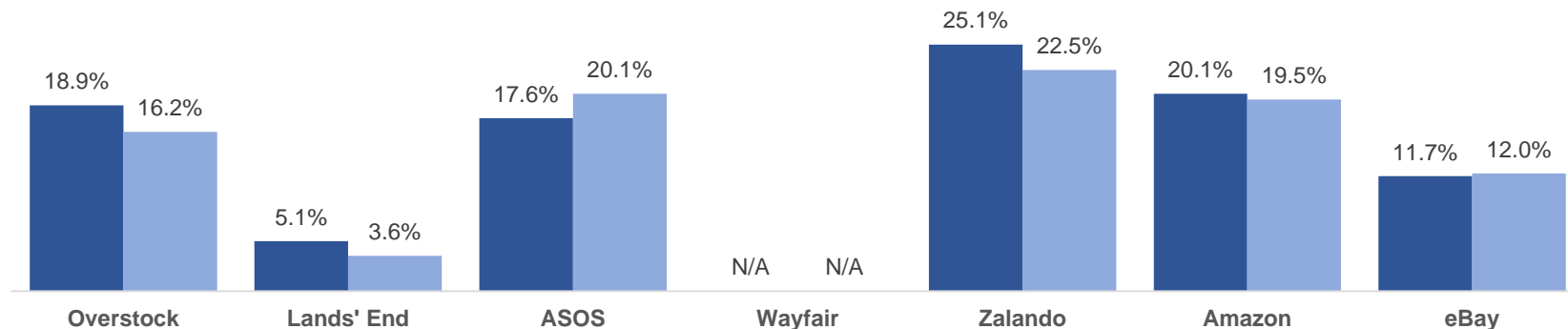
...yet, Overstock's FY revenue growth is within the range of its peers, implying that current multiple levels and valuations are unjustified

Benchmarking Analysis

Forward EV/Revenue



FY1 & FY2 Revenue Growth



Source: CapIQ and Thomson One

Note: As of October 31st, 2014

Valuation: Discounted Cash Flow

Using conservative assumptions, Overstock is trading at a 39.7% premium to its fair value on a cash flow basis

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|-------------------------|---------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Unlevered FCF | 16,175 | 6,489 | 16,600 | 18,123 | 20,681 | 25,332 | 28,759 | 31,793 | 35,217 | 38,826 | 42,553 |
| Discount Period | 0.15 | 1.15 | 2.15 | 3.15 | 4.15 | 5.15 | 6.15 | 7.15 | 8.15 | 9.15 | 10.15 |
| Discount Factor | 0.98 | 0.87 | 0.77 | 0.68 | 0.61 | 0.54 | 0.48 | 0.42 | 0.38 | 0.33 | 0.29 |
| PV of Cash Flows | 11,654 | 5,648 | 12,813 | 12,403 | 12,551 | 13,631 | 13,722 | 13,451 | 13,211 | 12,915 | 12,551 |

Valuation Summary

| | |
|---|--------------|
| Risk Free Rate (10 Yr US Treasury) | 2.6% |
| Expected Market Return (30 Year Return- S&P500) | 9.4% |
| Market Risk Premium | 6.8% |
| Beta (5 Yr) | 0.92 |
| Cost of Equity | 8.8% |
| Small Cap Premium | 4.0% |
| WACC | 12.8% |

Commentary

- Assumes a very low exit multiple of 0.7x Revenue, much lower than industry average of 1.5-2.0x
- Valuation is driven by very conservative assumptions
 - 10-year revenue CAGR of 5%
 - Maximum EBIT margin of ~2.6%
- Significant margin of safety given current price

Share Price Summary

| | |
|-------------------------------|----------------|
| Exit Multiple (TEV / Revenue) | 0.7x |
| Implied Growth % | 15.9% |
| 2024 Revenue | 2,595,892 |
| Terminal Value | 535,957 |

Terminal Exit Multiple (TEV / Revenue)

| | |
|-------------------------|----------------|
| PV of Cash Flows | 134,550 |
| Terminal Value | 535,957 |
| Enterprise Value | 670,507 |
| Add: Cash | 112,740 |
| Less: Debt | - |
| Less: Minority Interest | - |
| Equity Value | 783,247 |

| | |
|------------------------|--------------|
| Target Share Price: | \$32.33 |
| Current Share Price: | \$23.12 |
| Total Gain/Loss | 39.8% |

Valuation: Sensivity

Sensitivity shows that is a significant margin of safety given conservative assumptions on WACC and exit multiple

| | | TEV / Revenue Multiple | | | | |
|------|-------|------------------------|-------|-------|-------|-------|
| | | 0.5x | 0.6x | 0.7x | 0.8x | 0.9x |
| WACC | 11.8% | 20.0% | 34.9% | 49.8% | 64.8% | 79.7% |
| | 12.3% | 16.1% | 30.3% | 44.6% | 58.9% | 73.1% |
| | 12.8% | 12.3% | 26.0% | 39.6% | 53.2% | 66.9% |
| | 13.3% | 8.8% | 21.8% | 34.8% | 47.9% | 60.9% |
| | 13.8% | 5.4% | 17.8% | 30.3% | 42.8% | 55.2% |

| | | Customer Growth | | | | |
|------|-------|-----------------|-------|-------|-------|-------|
| | | 1.00% | 1.50% | 2.00% | 2.50% | 3.00% |
| WACC | 11.8% | 36.3% | 42.9% | 49.8% | 57.0% | 64.5% |
| | 12.3% | 31.6% | 38.0% | 44.6% | 51.5% | 58.7% |
| | 12.8% | 27.1% | 33.2% | 39.6% | 46.2% | 53.1% |
| | 13.3% | 22.8% | 28.7% | 34.8% | 41.2% | 47.8% |
| | 13.8% | 18.8% | 24.4% | 30.3% | 36.4% | 42.8% |

Risks & Catalysts



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Catalysts

- The new store credit card and the Club O loyalty program will attract new customers and incentivize larger average tickets
- Various technology initiatives will portray Overstock as an innovative technology company amongst e-commerce peers, thus expanding trading multiples
- Overstock further focus on
- Their membership program specifically discounts their books causing Amazon's loyal customer to consider Overstock's services helping Overstock gain market share

Risks

- By expanding internationally, Overstock will be facing intense competitive pressure
- Overstock shares may see volatility with the fluctuation of Bitcoin's value
- As Overstock expands their operations throughout the United States they will be subject to new sales taxes
 - Doing so strips Overstock's competitive edge over Amazon in their recent increase in sales taxes
- Overstock is spending 28% more cash on their technology initiatives that the SEC has yet to consent



WIC General Meeting

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