

Overstock.com Reports Q1 2013 Results

4/18/2013

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Q1 2013 net income of \$7.7 million and 19% revenue growth

SALT LAKE CITY, April 18, 2013 /PRNewswire/ -- **Overstock.com, Inc.** (NASDAQ: OSTK) today reported financial results for the quarter ended March 31, 2013.

(Logo: <http://photos.prnewswire.com/prnh/20120110/LA33954LOGO>)

Key Q1 2013 metrics (comparison to Q1 2012):

- Revenue: \$312.0M vs. \$262.4M (19% increase);
- Gross margin: 18.9% vs. 18.1% (80 basis point increase);
- Gross profit: \$58.9M vs. \$47.5M (24% increase);
- Sales and marketing expense: \$18.7M vs. \$14.5M (29% increase);
- Contribution (non-GAAP measure): \$40.2M vs. \$33.0M (22% increase);
- G&A/Technology expense: \$33.2M vs. \$30.5M (9% increase);
- Net income: \$7.7M vs. \$2.7M (\$5.0M increase); and
- Diluted EPS: \$0.32/share vs. \$0.12/share (\$0.20/share increase).

As previously announced, the Company will hold a conference call and webcast to discuss its Q1 2013 financial results today, Thursday, April 18, 2013, at 11:30 a.m. ET.

Webcast information

To access the live webcast and presentation slides, please go to <http://investors.overstock.com>. To listen to the conference call via telephone, dial (866) 551-1816 and enter conference ID 29140338 when prompted. Participants outside the United States or Canada who do not have Internet access should dial +1 (706) 758-1198 then enter the conference ID provided above.

A replay of the conference call will be available at <http://investors.overstock.com> starting two hours after the live call has ended. An audio replay of the webcast will be available via telephone starting at 12:30 p.m. ET on Thursday,

April 18, 2013, through 11:59 p.m. ET on Saturday, May 18, 2013. To listen to the recorded webcast by phone, please dial (855) 859-2056 then enter the conference ID provided above. Outside the U.S. or Canada please dial +1 (404) 537-3406 and enter the conference ID provided above.

Please email questions to Mark Harden at mharden@overstock.com prior to the conference call.

Key financial and operating metrics:

Investors should review our financial statements and publicly-filed reports in their entirety and not rely on any single financial measure.

Net revenue — Total net revenue for Q1 2013 and 2012 was \$312.0 million and \$262.4 million, respectively, a 19% increase. The growth in net revenue was primarily due to a 21% increase in average order size, partially offset by a small decrease in the number of customer orders.

Gross profit — Gross profit for Q1 2013 and 2012 was \$58.9 million and \$47.5 million, respectively, a 24% increase, representing 18.9% and 18.1% of total net revenue for those respective periods. The increase in gross profit was primarily due to higher revenue and a shift in product sales mix into higher margin home and garden products, and lower warehousing costs, partially offset by higher freight costs.

Contribution (a non-GAAP financial measure) and contribution margin (a non-GAAP financial measure) — Contribution for Q1 2013 and 2012 was \$40.2 million and \$33.0 million, respectively, a 22% increase. Contribution margin was 12.9% and 12.6% for those same periods.

Contribution (a non-GAAP financial measure) (which we reconcile to "gross profit" in our statement of operations) consists of gross profit less sales and marketing expense and reflects an additional way of viewing our results. Contribution margin is contribution as a percentage of total net revenue. We believe contribution and contribution margin provides management and users of the financial statements information about our ability to cover our operating costs, such as technology and general and administrative expenses. Contribution and contribution margin are used in addition to and in conjunction with results presented in accordance with GAAP and should not be relied upon to the exclusion of GAAP financial measures. The material limitation associated with the use of contribution is that it is an incomplete measure of profitability as it does not include all operating expenses or non-operating income and expenses. Management compensates for these limitations when using this measure by looking at other GAAP measures, such as operating income and net income.

For further details on contribution and contribution margin, see the calculation of these non-GAAP financial measures and the reconciliation of contribution to gross profit below (in thousands):

| | Three months ended March 31, | | | |
|--------------------------------------|---------------------------------|-------|------------|-------|
| | 2013 | | 2012 | |
| Total net revenue | \$ 311,994 | 100% | \$ 262,367 | 100% |
| Cost of goods sold | 253,058 | 81.1% | 214,859 | 81.9% |
| Gross profit | 58,936 | 18.9% | 47,508 | 18.1% |
| Less: Sales and marketing expense | 18,705 | 6.0% | 14,475 | 5.5% |
| Contribution and contribution margin | \$ 40,231 | 12.9% | \$ 33,033 | 12.6% |

Sales and marketing expenses — Sales and marketing expenses totaled \$18.7 million and \$14.5 million for Q1 2013 and 2012, respectively, a 29% increase, and representing 6.0% and 5.5% of total net revenue for those respective periods. The increase was primarily due to increased spending in the sponsored search marketing channel due to a higher proportion of our revenue coming through that channel.

Technology expenses — Technology expenses totaled \$18.2 million and \$15.6 million for Q1 2013 and 2012, respectively, a 16% increase, and representing 5.8% and 6.0% of total net revenue for those respective periods. The \$2.6 million increase is primarily due to an increase in staff related costs.

General and administrative ("G&A") expenses — G&A expenses totaled \$15.1 million and \$14.8 million for Q1 2013 and 2012, respectively, a 2% increase, and representing 4.8% and 5.6% of total net revenue for those respective periods.

Restructuring — Restructuring was a credit of \$(432,000) and a charge of \$98,000 for Q1 2013 and Q1 2012, respectively. The credit in Q1 2013 is related to reoccupying some of our IT data center space that had previously been restructured. The \$98,000 charge in Q1 2012 was primarily due to ceasing the use of our office space in Provo, Utah.

Operating income — Operating income was \$7.4 million and \$2.5 million for Q1 2013 and 2012, respectively, a \$4.9 million increase.

Interest income — Interest income was \$34,000 and \$29,000 for Q1 2013 and 2012, respectively.

Interest expense — Interest expense totaled \$51,000 and \$208,000 for Q1 2013 and 2012, respectively. The decrease is primarily due to our repayment of the \$17.0 million in advances under the U.S. Bank Financing Agreement in November 2012.

Other income, net — Other income, net totaled \$345,000 and \$432,000 for Q1 2013 and 2012, respectively.

Income taxes — Income tax expense totaled \$46,000 and \$9,000 for Q1 2013 and 2012, respectively.

Net income — Net income was \$7.7 million and \$2.7 million for Q1 2013 and 2012, respectively, an increase of \$5.0 million. Q1 2013 diluted earnings per share were \$0.32, compared to \$0.12 for Q1 2012.

Free cash flow (a non-GAAP financial measure) — Free cash flow totaled \$32.3 million and \$3.5 million for the twelve months ended March 31, 2013 and 2012, respectively. The \$28.8 million increase was due to a \$36.1 million increase in operating cash flows, partially offset by a \$7.2 million increase in capital expenditures.

Free cash flow reflects an additional way of viewing our cash flows and liquidity that, when viewed with our GAAP results, provides a more complete understanding of factors and trends affecting our cash flows and liquidity. Free cash flow, which we reconcile to "net cash provided by (used in) operating activities," is cash flow from operations reduced by "expenditures for fixed assets, including internal-use software and website development." We believe that cash flows from operating activities is an important measure, since it includes both the cash impact of the continuing operations of the business and changes in the balance sheet that impact cash. However, we believe free cash flow is a useful measure to evaluate our business since purchases of fixed assets are a necessary component of ongoing operations and free cash flow measures the amount of cash we have available for mandatory debt service and financing obligations, changes in our capital structure, and future investments, after we have paid our operating expenses. Therefore, we believe it is important to view free cash flow as a complement to our entire consolidated statements of cash flows.

Our calculation of free cash flow is set forth below (in thousands):

| | Three months ended March 31, | | Twelve months ended March 31, | |
|--|---------------------------------|-------------|----------------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| Net cash provided by (used in) operating activities | \$ (1,653) | \$ (22,234) | \$ 48,726 | \$ 12,657 |
| Expenditures for fixed assets, including internal-use software and website development | (6,062) | (2,127) | (16,424) | (9,192) |
| Free cash flow | \$ (7,715) | \$ (24,361) | \$ 32,302 | \$ 3,465 |

Cash and working capital — We had cash and cash equivalents of \$81.9 million and \$93.5 million and working

capital of \$8.5 million and \$7.5 million at March 31, 2013 and December 31, 2012, respectively.

About Overstock.com

Overstock.com (NASDAQ: OSTK) is an online discount retailer based in Salt Lake City, Utah that sells a broad range of products including furniture, rugs, bedding, electronics, clothing, jewelry and cars. **Worldstock.com**, a fair trade department dedicated to selling artisan-crafted products from around the world offers additional unique items.

Main Street Revolution supports small businesses across the United States by providing them a national customer base. The Nielsen State of the Media: Consumer Usage Report placed Overstock.com among the top five most visited mass merchandiser websites in 2011. Overstock.com sells internationally under the name O.co.

Overstock.com (<http://www.overstock.com> and <http://www.o.co>) regularly posts information about the company and other related matters under **Investor Relations** on its website.

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This press release contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements include all statements other than statements of historical fact. Our Annual Report on Form 10-K for the year ended December 31, 2012, which was filed with the Securities and Exchange Commission on February 21, 2013, and our other subsequent filings with the Securities and Exchange Commission identify important factors that could cause our actual results to differ materially from those contained in our projections, estimates or forward-looking statements.

Overstock.com, Inc.
Consolidated Balance Sheets (Unaudited)
(in thousands)

| Assets | March 31, 2013 | December 31, 2012 |
|-----------------------------|-------------------|----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 81,895 | \$ 93,547 |
| Restricted cash | 1,780 | 1,905 |
| Accounts receivable, net | 15,851 | 19,273 |
| Inventories, net | 21,535 | 26,464 |
| Prepaid inventories, net | 1,988 | 1,912 |
| Prepays and other assets | 10,589 | 12,897 |
| Total current assets | 133,638 | 155,998 |
| Fixed assets, net | 25,937 | 21,037 |
| Goodwill | 2,784 | 2,784 |
| Other long-term assets, net | 2,867 | 2,166 |
| Total assets | \$ 165,226 | \$ 181,985 |

| Liabilities and Stockholders' Equity | | | |
|--|----|----------------|-------------------|
| Current liabilities: | | | |
| Accounts payable | \$ | 46,753 | \$ 62,416 |
| Accrued liabilities | | 46,871 | 47,674 |
| Deferred revenue | | 31,531 | 38,411 |
| Total current liabilities | | <u>125,155</u> | <u>148,501</u> |
| Other long-term liabilities | | 2,049 | 2,522 |
| Total liabilities | | <u>127,204</u> | <u>151,023</u> |
| Stockholders' equity: | | | |
| Common stock | | 2 | 2 |
| Additional paid-in capital | | 357,647 | 356,895 |
| Accumulated deficit | | (239,399) | (247,096) |
| Treasury stock | | (80,228) | (78,839) |
| Total stockholders' equity | | <u>38,022</u> | <u>30,962</u> |
| Total liabilities and stockholders' equity | \$ | <u>165,226</u> | \$ <u>181,985</u> |

Overstock.com, Inc.
Consolidated Statements of Income and
Comprehensive Income (Unaudited)
(in thousands, except per share data)

| | Three months ended March 31, | |
|--|---------------------------------|-----------------|
| | 2013 | 2012 |
| Revenue, net | | |
| Direct | \$ 41,942 | \$ 40,897 |
| Fulfillment partner | 270,052 | 221,470 |
| Total net revenue | <u>311,994</u> | <u>262,367</u> |
| Cost of goods sold | | |
| Direct | 37,149 | 37,630 |
| Fulfillment partner | 215,909 | 177,229 |
| Total cost of goods sold | <u>253,058</u> | <u>214,859</u> |
| Gross profit | <u>58,936</u> | <u>47,508</u> |
| Operating expenses: | | |
| Sales and marketing | 18,705 | 14,475 |
| Technology | 18,160 | 15,638 |
| General and administrative | 15,088 | 14,822 |
| Restructuring | (432) | 98 |
| Total operating expenses | <u>51,521</u> | <u>45,033</u> |
| Operating income | 7,415 | 2,475 |
| Interest income | 34 | 29 |
| Interest expense | (51) | (208) |
| Other income, net | 345 | 432 |
| Income before income taxes | <u>7,743</u> | <u>2,728</u> |
| Provision for income taxes | 46 | 9 |
| Net income | <u>\$ 7,697</u> | <u>\$ 2,719</u> |
| Net income per common share—basic: | | |
| Net income attributable to common shares—basic | \$ 0.33 | \$ 0.12 |
| Weighted average common shares outstanding—basic | 23,594 | 23,392 |
| Net income per common share—diluted: | | |
| Net income attributable to common shares—diluted | \$ 0.32 | \$ 0.12 |
| Weighted average common shares outstanding—diluted | 24,016 | 23,414 |
| Comprehensive income | <u>\$ 7,697</u> | <u>\$ 2,719</u> |
| Other data: | | |
| Gross bookings | \$ 345,338 | \$ 291,981 |

Overstock.com, Inc.
Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

| | Three months ended March 31, | | Twelve months ended March 31, | |
|--|---------------------------------|------------------|----------------------------------|------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Cash flows from operating activities: | | | | |
| Net income (loss) | \$ 7,697 | \$ 2,719 | \$ 19,647 | \$ (16,275) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | |
| Depreciation and amortization | 3,863 | 4,034 | 15,838 | 16,385 |
| Realized gain from sale of marketable securities | (12) | (7) | (14) | (7) |
| Loss (gain) on disposition of fixed assets | - | 85 | (13) | 85 |
| Stock-based compensation to employees and directors | 752 | 813 | 3,466 | 2,988 |
| Amortization of debt discount and deferred loan costs | 5 | 35 | 43 | 128 |
| Loss from early extinguishment of debt | - | - | - | 1,226 |
| Restructuring charges (reversals) | (432) | 98 | (454) | 98 |
| Changes in operating assets and liabilities: | | | | |
| Restricted cash | 125 | (17) | 273 | 330 |
| Accounts receivable, net | 3,422 | 1,560 | (3,910) | (4,060) |
| Inventories, net | 4,929 | 6,348 | (4,890) | 3,518 |
| Prepaid inventories, net | (76) | (883) | (78) | (124) |
| Prepays and other assets | 1,462 | 3,156 | (400) | 1,581 |
| Other long-term assets, net | 53 | 694 | (908) | 244 |
| Accounts payable | (15,729) | (27,587) | 3,956 | 3,386 |
| Accrued liabilities | (748) | (12,211) | 11,004 | (1,952) |
| Deferred revenue | (6,880) | (1,164) | 4,717 | 4,695 |
| Other long-term liabilities | (84) | 93 | 449 | 411 |
| Net cash provided by (used in) operating activities | <u>(1,653)</u> | <u>(22,234)</u> | <u>48,726</u> | <u>12,657</u> |
| Cash flows from investing activities: | | | | |
| Purchases of marketable securities | (75) | (38) | (119) | (159) |
| Purchases of intangible assets | - | - | (6) | (4) |
| Sales of marketable securities | 152 | 117 | 189 | 117 |
| Investment in precious metals | - | - | (1,397) | - |
| Expenditures for fixed assets, including internal-use software and website development | (6,062) | (2,127) | (16,424) | (9,192) |
| Proceeds from sale of fixed assets | - | - | 56 | - |
| Net cash used in investing activities | <u>(5,985)</u> | <u>(2,048)</u> | <u>(17,701)</u> | <u>(9,238)</u> |
| Cash flows from financing activities: | | | | |
| Payments on capital lease obligations | (2,563) | (77) | (2,598) | (735) |
| Drawdowns on line of credit | - | - | - | 17,000 |
| Payments on line of credit | - | - | (17,000) | - |
| Capitalized financing costs | - | - | - | (140) |
| Proceeds from finance obligations | - | - | - | 1,429 |
| Payments on finance obligations | - | - | - | (23,939) |
| Paydown on direct financing arrangement | (62) | (57) | (241) | (221) |
| Payments to retire convertible senior notes | - | - | - | (24,505) |
| Purchase of treasury stock | (1,389) | (464) | (1,396) | (479) |
| Net cash used in financing activities | <u>(4,014)</u> | <u>(598)</u> | <u>(21,235)</u> | <u>(31,590)</u> |
| Net increase (decrease) in cash and cash equivalents | <u>(11,652)</u> | <u>(24,880)</u> | <u>9,790</u> | <u>(28,171)</u> |
| Cash and cash equivalents, beginning of period | <u>93,547</u> | <u>96,985</u> | <u>72,105</u> | <u>100,276</u> |
| Cash and cash equivalents, end of period | <u>\$ 81,895</u> | <u>\$ 72,105</u> | <u>\$ 81,895</u> | <u>\$ 72,105</u> |
| Supplemental disclosures of cash flow information: | | | | |
| Cash paid during the period: | | | | |
| Interest paid | \$ 20 | \$ 149 | \$ 453 | \$ 2,142 |
| Taxes paid | 283 | 2 | 580 | 2 |
| Non-cash investing and financing activities: | | | | |
| Fixed assets, including internal-use software and website development, costs financed through accounts payable and accrued liabilities | \$ 116 | \$ 121 | \$ 497 | \$ 12 |
| Equipment acquired under capital lease obligations | 2,563 | - | 2,563 | - |
| Equipment acquired under finance obligations | - | - | - | 4,532 |
| Lapse of rescission rights of redeemable stock | - | - | - | 398 |

SOURCE Overstock.com, Inc.

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