

1-800-FLOWERS.COM Inc.

NasdaqGS: FLWS

Analyst: Ryan Burke
Sector: Consumer
Discretionary

BUY (after earnings November 3).

Price Target: \$14.67

Key Statistics as of 10/21/15

Market Price:	\$9.40
Industry:	Online Florist & Gift Shop
Market Cap:	\$611.29M
52-Week Range:	\$7.05 – 13.46
Beta:	2.14143

Thesis Points:

- 1-800-FLOWERS.COM is midst of integration process with recent acquisition.
- In previous earnings report, management reacted evasively to all questions concerning short term growth.
- \$15 million of Cost, Growth and Revenue Synergies have been identified over the next 3 years.
- Investments in targeted Marketing and recently launched multi-brand website will help achieve cross brand traffic this holiday season.

Company Description:

1-800-FLOWERS.COM, Inc. operates a florist and gift shop in the United States. The company operates in three segments: Consumer floral, Gourmet Food and Gift Baskets, and Bloomnet Wire Service. The subsidiaries that operate under the umbrella of 1-800-FLOWERS.COM, Inc. include Harry & David® (fruits & gourmet foods), The Popcorn Factory® (popcorn & specialty treats), Cheryl's® (cookies & baked treats), Fannie May® (chocolate & confectionary treats), 1-800- Baskets.com® (gift baskets), Wolferman's (English muffins & breakfast treats), FruitBouquets.com (fresh fruit arrangements), and Stock Yards® (steaks and chops). The Company's BloomNet® international floral wire service provides a broad range of quality products and value-added services designed to help professional florists grow their businesses profitably. 1-800-FLOWERS.COM's objective is to be the leading authority on thoughtful gifting, to serve an expanding range of our customers' celebratory needs, thereby helping customers express themselves and connect with important people in their lives.



Thesis

Once the storm of Quarter 1 passes on the earnings report November 3, 1-800-FLOWERS.COM is destined to blossom. First, As a provider of gifts to consumers and wholesalers for resale to consumers, 1-800-FLOWERS.COM Inc. is subject to changes in consumer confidence and the economic conditions that impact its customers. Demand for the company's products is affected by the financial health of their customers, which, in turn, is influenced by macro-economic issues such as unemployment, costs, availability of consumer credit, etc. While consumers appear more upbeat about the economy, during the recent economic downturn, the demand for products has been adversely affected by the reduction in consumer spending, and the company expects that its revenues will continue to be closely tied to changes in consumer sentiment.



The volatile nature of the economy this past quarter is not optimistic for a favorable earnings report on November 3rd. It is likely they will either scrape by or fall short of their expectations.

Secondly, in the previous earnings report, senior management was noticeably ambiguous concerning questions regarding short term growth and profit, but preached patience and organic growth further down the road. This is partly due to an acquisition of their former competitor, Harry & David, which closed this past fiscal year. This acquisition pushed revenues past the billion-dollar-threshold for the first time in company history, but back office integration is still in the works for 1-800-FLOWERS.COM as alluded to by management in the previous earnings report.

There are valuable revenue, cost, and growth synergies achievable by the creation of the company's new multi-branded-portal website and targeted marketing investments. Management believes these will begin to be fully realized heading into this holiday season. The future of 1-800-FLOWERS.COM is full of

organic growth, but information points toward this earnings report as the close of an incubation period. The prudent long term investing choice is to invest after the Earnings Report November 3rd. Price of the stock will likely decline or marginally increase at best but the intrinsic value of the company has been calculated at \$13.74 and the target value has been calculated at \$14.76.

Brand Characterization

What defines the 1-800-FLOWERS.COM brand is 5 primary factors.

Convenience: All of the Company's product offerings can be purchased either via the web and wireless devices, or via the Company's toll-free telephone numbers, 24 hours a day, seven days a week, for those customers who prefer a personal gift advisor to assist them. The Company offers a variety of delivery options, including same-day or next-day service throughout the world.

Quality: High-quality products are critical to the Company's continued brand strength and are integral to the brand loyalty that it has built over the years. The Company offers its customers a 100% satisfaction guarantee on all of its products

Delivery Capability: The Company has developed a market-proven fulfillment infrastructure that allows delivery on a same-day, next-day and any-day basis. Key to the Company's fulfillment capability is an innovative "hybrid" model which combines BloomNet (comprised of independent florists operating retail flower shops, Company-owned stores, and franchised stores), with its manufacturing and distribution centers located in Florida, Illinois, Nevada, New York, Ohio, Tennessee and Oregon, and third-party vendors who ship directly to the Company's customers.

Selection: Over the course of a year, the Company offers more than 9,800 varieties of fresh-cut flowers, floral and fruit bouquets and plants, and more than 8,200 stock keeping units of gifts, gourmet foods and gift baskets, cookies and chocolates.

Customer Service: The Company strives to ensure that customer service, whether online, wireless, via the telephone, or in one of its retail stores is of the highest caliber. The Company operates customer service centers in Ohio and Oregon, while also utilizing a network of home agents and outsourcers to provide helpful assistance on everything from advice on product selection to the monitoring of the fulfillment

and delivery process.

Porter's 5 Forces

Competitive Rivalry: 1-800-FLOWERS.COM's main competitors are FTD, Inc. and Teleflora LLC. FTD is owned by United Online (UNTD), which also partners with Interflora. FTD, Inc. offers floral arrangements, gourmet foods, greeting cards, balloons, candles, and etc. Teleflora LLC focuses on just floral arrangements and is a privately held company.

1-800-FLOWERS.COM also competes with local floral stores in people's neighborhoods and grocery stores. Many people buy their flowers from local flower shops in their city because of the convenience and price. To compete with the disadvantage of not being able to see the actual flowers before they arrive, FLWS guarantees that flowers will be fresh and customers have a 100% satisfaction guarantee or your money back.

Threat of Substitute Products or Services: The threat of substitutes is high. Customers have many options of places where to buy their floral arrangements or gifts from. There are other websites online where one can order flowers or gift baskets. Also they can even go to their local neighborhood flower shop and even grocery store. However 1-800-FLOWERS.COM's selection of 9,800 types of fresh-cut flowers is a difficult figure to compete with by a local florist. Not to mention the endless combination of complementary products available at the click of a mouse.

Bargaining Power of Buyers: The bargaining power of buyers is high. Floral arrangements and gift baskets are elastic. This makes them sensitive to prices and macro-economic conditions. If the economy is doing poorly, many people will be reluctant to spend money on flowers and gift baskets; however, when times are good in the holiday season, people are much more willing to spend money on consumer discretionary goods and services.

Bargaining Power of Suppliers The bargaining power of suppliers is low. 1-800-FLOWERS.COM works directly with professional florists who are part of their BloomNet wire service network. They work with premiere farms that follow safe environment practices and that are certified by industry leading agencies such

as Fair Trade, Ascoflores, Green Label Program, and many more. 1-800-FLOWERS.COM works with farmers and to ensure sure quality control.

Barriers to Entry: The threat of entry is medium. It is very easy for a company to start up and sell flowers and gift baskets. However, 1-800-FLOWERS.com has a very strong brand image and have the advantage of convenience, economies of scale and cross-brand complimentary goods and services which makes their company valuable.

Opportunities for Synergy & Revenue

In the Earnings Report the senior Management of 1-800-FLOWERS.COM discussed the potential Growth, Revenue, and Cost Synergies that will actualize over the next 3 years. An estimated \$15 million of synergies have been identified implementation is underway.

Additionally, the Company is working on revenue opportunities in areas such as

Combined Customer Database: new software tools that can help the Company to significantly enhance the relevance of their marketing messages to deepen and expand their relationships with customers in their *significant* database.

Multi-brand website: launched in fiscal 2015, the Company is not focusing marketing efforts on developing and growing its multi-branded customer, providing for increased customer counts and purchase frequency through increased penetration of its suite of floral and food gift products, including recently acquired Harry & David brand. Through the website the company is creating a one-stop shop featuring all brands with a single shopping cart. This will increase cross-brand traffic thereby increasing revenues.

Mass-channel Where the company can leverage its wholesale account relationships along with manufacturing capabilities and expanded production capacities to grow specific brands.

In the past year 1-800-FLOWERS.COM returned 6,249 basis points relative to the S&P 500, or 62.9% in absolute return. FLWS's revenue grew by 16.1% over the past 3 full fiscal years. Analysts forecast revenue growth in the neighborhood of 6.5% FY 2016 and 5.2% FY 2017 and EBIT margins to grow 4.3% FY 2016 and 5.2% FFY 2017. Ultimately, 1-800-FLOWERS.COM is financially healthy and has solid growth potential in the future.

Earnings Report Concerns

Despite the positive growth last year, the promising acquisition of Harry and David brand, and the favorable forecasts by analysts, Senior Management reacted evasively to questions concerning short term profit from there from their website for this upcoming quarter. When Don Kurnos of The Benchmark Company asked CEO & Chairman Jim McCann when investors can expect to see acceleration for the total business from Harry & David, Jim McCann meandered around the point stating that growth synergies will take some time to achieve and implied the holiday season is where the energy will be coming from. 1-800-FLOWERS.COM intends on slowly integrating Harry & Davids products into the stream of traffic on the website to prevent disruption in customer flow and consumer confusion. As the website integrates the new company, this new platform will lead to exposure that will result in cross-brand shopping. When 1-800-FLOWERS.COM sees that cross-brand engagement, they will see increases in retention, frequency, and average spend time both within brand and across brands. This growth will lead contribute to top and bottom line growth and an increase in value. Most of the integration occurred over this past semester. So only a small part of the growth will occur in the first quarter of the 1-800-FLOWERS.COM fiscal year. The real value will be realized in the upcoming second quarter, during the holiday season after the earnings report November 3.

Summary

Financial Analysis shows 1-800-FLOWERS.COM is an industry leader and a financially healthy company that exhibits potential for valuable growth in the future. However, recent macro-economic trends in conjunction with ambiguous responses by senior management raise a warning sign for the immediate future. There is a good probability that 1-800-FLOWERS.COM scrapes by or misses their earnings report this upcoming quarter, if this is the case, invest immediately after a drop. The revenue, cost, and growth synergies are expected to pick up this holiday season and the new investments in website design and targeted marketing will increase revenues in Quarter 2.

CENTER FOR GLOBAL FINANCIAL STUDIES															
1-800-Flowers.com Inc.	flvs	Analyst Ryan Burke	Current Price \$9.62	Intrinsic Value \$13.74	Target Value \$14.67	Dividend 0%	1-y Return: 52.49%	BULLISH							
General Info		Peers		Market Cap.		Management									
Sector: Consumer Discretionary		FTD Companies, Inc.		\$827.04		Professional									
Industry: Internet and Catalog Retail		PetMed Express, Inc.		\$337.90		Title									
Last Guidance: August 21, 2015						Comp. FY2013									
Next earnings date: November 3, 2015						Comp. FY2014									
						Comp. FY2015									
Market Data		Current Capital Structure		Past Earnings Surprises											
Enterprise value: \$731.57		Total debt/Common Equity (LTM): 0.36		Revenue		EBITDA		Norm. EPS							
Market Capitalization: \$625.60		Cost of Borrowing (LTM): 9.37%		Last Quarter: -1.51%		Last Quarter: NM		Last Quarter: NM							
Daily volume: 0.16		Estimated Cost of new Borrowing: 5.22%		Last Quarter-1: -0.21%		Last Quarter-1: NM		Last Quarter-1: NM							
Shares outstanding: 65.03		Altman's Z: 3.71		Last Quarter-2: -0.10%		Last Quarter-2: -12.29%		Last Quarter-2: 3.75%							
Diluted shares outstanding: 67.60		Estimated Debt Rating: BBB		Last Quarter-3: -2.61%		Last Quarter-3: NM		Last Quarter-3: NM							
% shares held by institution: 37.72%		Current levered Beta: 1.28		Last Quarter-4: -2.78%		Last Quarter-4: -11.73%		Last Quarter-4: 0.00%							
% shares held by insiders: 59.27%		LTM WACC: 8.19%		Standard error: 0.6%		Standard error: 0.3%		Standard error: 1.9%							
Short interest: 4.22%				Standard Error of Revenues prediction: 0.6%				Standard Error of "Surprise": 4.83%							
Days to cover short interest: 7.68				Imputed Standard Error of Op. Cost pr: NM				Standard Error of "Surprise": NM							
52 week high: \$13.46				Imputed Standard Error of Op. Cost pr: 1.3%				Standard Error of "Surprise": 3.54%							
52-week low: \$7.05								Standard Error of "Surprise": 1.81%							
5y Beta: 2.10															
6-month volatility: 44.65%															
Proforma Assumptions															
Average Assumption			General Assumptions			Items' Forecast Assumptions			Other Assumptions						
All base year ratios linearly converge towards the Sub-industry ratios over an explicit period of 10 years			Money market rate (as of today): 0.35%			Base year (LTM)			Average period (Sub-indust. adjustment per year): Tobin's Q: 80%						
			Risk-Free rate (long term estimate): 2.92%			Operating Cash/Rev.: 0.00%			Excess cash reinvestment: Money market rate						
			Annual increase (decrease) in interest rates: 0.1%			N/W/Rev.: 2.05%			Other claims on the firm's assets: \$0.00						
			Marginal Tax Rate: 37.5%			NPPE/Rev.: 15.17%			Capitalization						
			Country Risk Premium: 5.5%			Dpr/NPPE: 15.89%			100% of all rent expenses are capitalized and amortized 'straightline' over 5 years						
						NOPAT MARGIN: 4.35%			R&D expenses are not capitalized						
						Op. Exp./Rev.: 31.65%			E&P expenses are not capitalized						
						SBC/Rev.: 0.53%			SG&A expenses are not capitalized						
						Rent Exp./Rev.: 2.52%			Valuation Focus						
						R&D/Rev.: 3.06%			DCF Valuation: 100%						
						E&D/Rev.: 0.00%			Relative valuation: 0%						
						SG&A/Rev.: 32.45%			Distress Valuation: 0%						
						ROIC: 3%			Monte Carlo Simulation Assumptions						
						EV/Rev.: 0.68x			Revenue Growth deviation: Normal (0%, 1%)						
						EV/EBITDA: 10.42x			Operating expense deviation: Normal (0%, 1%)						
						Debt/Equity: 36%			Continuing Period growth: Triangular (5.335%, 5.5%, 5.665%)						
						Unlevered beta: 1.07			Country risk premium: Triangular (2.91%, 3%, 3.09%)						
						Cost of Borrowing: 5%			Intrinsic value of(z): \$0.09						
						Dividends/REV: 0%			1-year target price of(z): \$0.10						
Valuation															
Forecast Year		ROIC		WACC		Invested Capital		Implied Enterprise Value		Claims on Assets and Dilution (Shares Outstanding)		Price per Share		Monte Carlo Simulation Results	
LTM		34.7%		8.2%		\$260.45		\$1,165.54		\$263.38		65.03		\$13.70	
FY2016		22.2%		8.2%		\$264.56		\$1,207.59		\$229.51		65.03		\$14.63	
FY2017		23.9%		8.2%		\$265.19		\$1,244.04		\$207.07		65.03		\$15.56	
FY2018		25.3%		8.2%		\$264.16		\$1,276.87		\$182.81		65.03		\$16.44	
FY2019		28.2%		8.3%		\$261.40		\$1,305.53		\$156.76		65.03		\$17.33	
FY2020		30.8%		8.3%		\$256.83		\$1,329.45		\$127.72		65.03		\$18.23	
FY2021		33.7%		8.4%		\$250.40		\$1,348.05		\$83.96		65.03		\$19.22	
FY2022		37.1%		8.4%		\$242.08		\$1,360.74		\$40.03		65.03		\$20.21	
FY2023		41.0%		8.4%		\$231.87		\$1,365.48		\$8.65		65.03		\$21.06	
FY2024		45.6%		8.4%		\$219.75		\$1,362.93		-\$23.75		65.03		\$21.89	
FY2025		51.0%		8.5%		\$205.77		\$1,352.48		-\$56.94		65.03		\$22.62	
Continuing Period		27.8%		8.7%		\$325.56									
												Sensitivity Analysis			
												Revenue growth variations account for 95.9% of total variance			
												Risk premium's variations account for 2.5% of total variance			
												Operating expenses' variations account for 1.4% of total variance			
												Continuing period growth variations account for 0.2% of total variance			