

Today's featured company is:



## 1.800.FLOWERS.COM, INC.

### Delivering Smiles and Profits

**1-800-FLOWERS.COM, Inc.** (FLWS:NASDAQ) has created a multibrand platform of gifting options for customers, integrating gourmet food and gift baskets and other products into its offerings, as well as continuing to grow its flagship consumer floral marketplace.

- A gift industry leader with revenues of \$1.17 billion in fiscal 2016
- Three key business segments: Gourmet Food & Gift Baskets, Consumer Floral, and BloomNet Wire Service
- Strong balance sheet; strong free cash flow
- A multibrand website that enhances customer behavior metrics, including increased retention, frequency, and lifetime value
- A proven ability to leverage the business platform to reduce operating expenses (opex)

[Click here to view the 1-800-FLOWERS.COM, Inc. Fact Sheet.](#)

[Click here to view the 1-800-FLOWERS.COM, Inc. Investor Presentation.](#)

Advisor Access spoke with president and CEO **Chris McCann** about recent developments at the company.

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#### Advisor Access: *How would you describe 1-800-FLOWERS.COM, Inc.?*



**Chris McCann:** We are the leading gourmet and floral gift provider, with a unique collection of “all-star” brands across a variety of product categories. Through a combination of “birthing” brands internally and strategic acquisition, we have assembled a lineup of leading gift brands that our customers know and trust to help them choose the right gift for an increasingly broad range of recipients and celebratory occasions.

**AA: What brands and gifting products are offered at 1-800-FLOWERS.COM, Inc.?**

**CM:** In Gourmet Foods & Gift Baskets, we have a portfolio of premium, top-quality fruits and other gourmet items from Harry & David®; cookies and baked gifts from Cheryl's®; premium chocolates and confections from Fannie May® and Harry London®; popcorn and specialty treats from The Popcorn Factory® and Moose Munch®; gift baskets and towers from 1-800-Baskets.com®; premium English muffins and other breakfast treats from Wolferman's®; fresh fruit arrangements from Fruit Bouquets by 1800flowers.com<sup>SM</sup>; prepared gourmet foods from Orchard Table®; and top-quality steaks and chops from Stock Yards®.

On the Consumer Floral side of our business, 1-800-Flowers.com® is the market leader, and our business model is largely virtual, with thousands of local professional florists around the country confecting and delivering floral gifts, made to our design and high-quality specifications, often on a same-day basis.

**AA: 1-800-FLOWERS.COM, Inc. has been helping customers “deliver smiles” for more than forty years, and the company has always been known for its innovation. What are some notable innovative milestones?**

**CM:** Simply put, innovation is part of our DNA. One example is the creation of the world’s first “of the month” gift club, the iconic Harry & David Fruit-of-the-Month Club®. We were also the first company to adopt an 800 telephone number in its name, the first merchant to conduct a transaction on AOL, and the floral industry’s first mobile commerce gift center.

**AA: How is the company continuing to foster a culture of innovation today?**

**CM:** We are intensely focused on, and committed to, being at the forefront of the technological innovations and social trends that shape consumer behavior. During the past year we began to leverage some exciting new developments in machine-learning, or artificial intelligence (AI). We launched the first commerce “bot” on Facebook’s Messenger platform, where there are now more than one billion monthly active users. We were one of the first external commerce brands integrated onto the Amazon Alexa voice-enabled platform. And, we launched “Gwyn,” our own AI-based gift concierge service, partnering with IBM’s Watson platform.

These initiatives have positioned us as a first mover in the fast-emerging world of “conversational commerce.” In addition, we have continued to innovate within the rapidly changing landscape for payments, becoming one of the launch partners with Apple on Apple Pay for desktop and mobile web.

**AA: What sets 1-800-FLOWERS.COM, Inc. apart as a compelling investment opportunity?**

**CM:** It’s a combination of factors, including our unique family of iconic gourmet and floral gift brands, which provide a broad range of growth opportunities in and of themselves, as well as via cross-brand marketing and merchandising. We are also accelerating organic revenue growth from a base of more than \$1 billion, and our bottom-line metrics of EBITDA (earnings before interest, taxes, depreciation, and amortization) and earnings per share (EPS) are growing at rates faster than revenue growth, illustrating the leverage we have in our business model. We are generating cash, with \$40 million in free cash flow forecast for fiscal year 2017. Our balance sheet is strong, with approximately 1.0x leverage and significant borrowing capacity. And we have a proven ability to leverage our business platform and capture cost efficiencies.

**AA: 1-800-FLOWERS.COM, Inc. consists of three business segments. What are the annual percentage of revenues?**

**CM:** Our Gourmet Foods & Gift Baskets segment now represents our largest concentration, with approximately 57% of total annual sales. Consumer Floral, the 1-800-Flowers.com brand, represents approximately 36% of revenues. Our BloomNet® wire-service B2B business represents approximately 7% of total revenues.

**AA: What are the key attributes of each of the three business segments?**

**CM:** Our Gourmet Foods & Gift Baskets segment generated approximately \$700 million in revenues in fiscal 2016, with inherently higher gross margins and gross margin expansion opportunities, as well as a growing contribution margin. Through our unique collection of brands and products, compared with primarily single-product-category-focused competitors, we are fast becoming a leader in the highly fragmented \$22 billion-plus gourmet food and gift baskets market. We continue to create omni-channel growth opportunities, both organically and through acquisition, via our ecommerce, retail, catalog, wholesale, and business gifting channels. We are also creating cross-marketing and merchandising opportunities through our new multibrand website and combined databases.

Our Consumer Floral segment generated approximately \$418 million in revenues in fiscal 2016. The 1-800-Flowers.com brand enjoys powerful brand equity, and we are extending our market leadership in the floral marketplace by growing at a faster rate off a larger base versus our competitors. We are especially strong in the “everyday gifting” category, which includes birthdays, anniversaries, sympathy, get well, new baby, and several other occasions. In addition to floral revenues themselves, highly leveragable traffic on the www.1800flowers.com site can benefit our gourmet gift brands.

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***“We are intensely focused on being at the forefront of the technological innovations and social trends that shape consumer behavior.”***

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Our BloomNet B2B wire service generated approximately \$85 million in revenues in fiscal 2016. BloomNet is growing its market penetration and gaining market share versus legacy wire-service competitors. Our strategy of concentrating on a smaller-size, “select” florist network of approximately 6,500 local retail florists allows us to control quality by being a more important part of our florist members’ everyday business.

**AA: What would you list as some of the company’s most important achievements during fiscal 2016?**

**CM:** We grew revenues 4.6%, to \$1.17 billion, and grew adjusted EBITDA (excluding stock-based compensation) 6.6% to \$85.8 million. We also grew adjusted EPS 26.5% to \$0.43. Furthermore, we continued the successful integration of Harry & David, increasing expected synergy savings to \$20 million.

## Growing Revenue & EBITDA

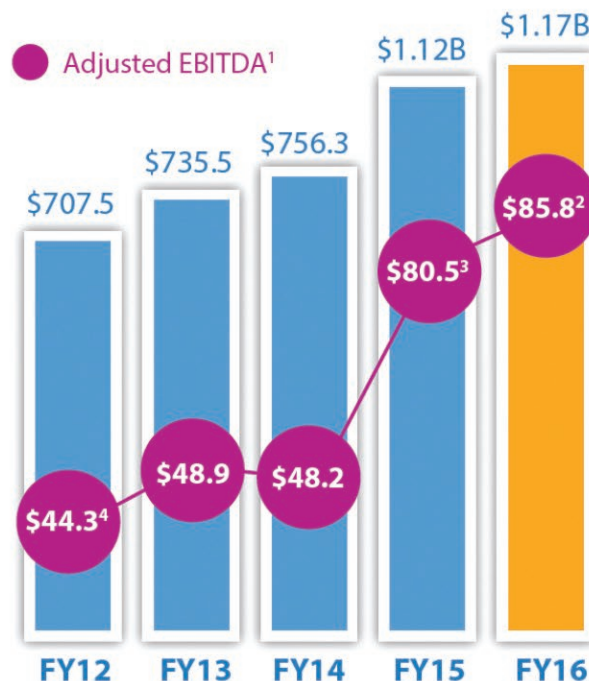
(From Continuing Operations in Millions)

(1) Excluding stock-based compensation.

(2) Adjusted EBITDA for fiscal 2016 excludes one-time costs for severance and integration of Harry & David, as well as the settlement of litigation.

(3) Pro forma for comparability: Includes Harry & David’s fiscal 2015 first quarter loss in order to present comparable full-year results: Adjusted EBITDA for fiscal 2015 excludes one-time costs associated with the acquisition and integration of Harry & David and the impact of the Fannie May warehouse fire in November 2014; Fiscal 2015 Adjusted EBITDA as reported was \$95.3MM.

(4) Fiscal 2012 EBITDA was adjusted to exclude a gain on the sale of Fannie May stores.



**AA: How has the acquisition of Harry & David (in September 2014) benefited 1-800-FLOWERS.COM, Inc.?**

**CM:** The acquisition combined leading brands in floral and gourmet food gifting, creating a dominant, omni-channel gift provider. It was a highly accretive acquisition before any cost synergies, and it continues to create significant multichannel revenue growth opportunities among multibrand customers, as well as through wholesale business gift services, via a consolidated database and through consumer clubs and subscriptions.

**AA: How is the company’s multibrand website helping to drive growth?**

**CM:** Our multibrand website offers a one-stop gifting destination, introducing customers to our entire family of brands and providing a myriad of gift options to all of our customers—and capturing a larger share of their “gifting wallets.” Customer behavior metrics are also enhanced, including an increased retention and repeat rate, along with higher average order value, which translates into greater lifetime customer value.

**AA: What is the strategy behind the multibrand approach?**

**CM:** The strategy is actually twofold: everyday gifting and merchandising. From an everyday gifting perspective, we are positioning our diverse selection of gourmet food brands as the go-to choice for a wide range of celebratory occasions throughout the year. Key to helping us do this is the everyday market leadership of our 1-800-Flowers.com brand, which uniquely positions us to introduce millions of customers to our expanded collection of brands. This also gives our gourmet food gift brands the opportunity to increase their reach into everyday gifting, and somewhat reduces their overall dependence on the year-end holiday season.

From a merchandising perspective, we are providing customers with a “Good, Better, Best, WOW!” selection in everything from chocolates to gift baskets to flowers, including thoughtful gifts for every occasion and recipient. By leveraging all our different brands, price points, and product categories, we can create efficient, cross-brand merchandising programs with an omni-channel approach online, via mobile technologies, through our branded emails, in our catalogs, in retail stores, and through our wholesale channels.

**AA: Besides the innovative advancements in “conversational commerce” driven by artificial intelligence, which you mentioned earlier, in what other ways is the company enhancing the customer experience?**

**CM:** Our Celebrations suite of services is the “glue” that connects all our brands across our multibrand portal, and helps remove the “friction” in the gifting experience. Celebrations Passport provides free delivery across all of our brands for a low annual fee of \$29.99. Celebrations Rewards enables customers to build and use points across all of our brands, and the Celebrations Reminders program helps our customers remember all of the important celebratory and gifting occasions in their lives.

**AA: Looking ahead, in what ways is 1-800-FLOWERS.COM, Inc. and its management team focused on sustaining and accelerating growth?**

**CM:** Over the past several years, we have nearly doubled our top line through a combination of solid organic growth and our disciplined approach to mergers and acquisitions. We have also, concurrently, more than doubled our bottom line in terms of EBITDA, EPS, and free cash flow. We have achieved these results despite rising labor costs and a tightening market for seasonal labor, increasing commodity prices, and unfavorable day placements for the Valentine’s holiday.

As we look ahead, we know there will always be headwinds. However, we are now seeing some nice tailwinds in our business as well. These include the successful integration of Harry & David, which is generating both operating synergies as well as significant revenue growth opportunities, and the strong momentum in our 1-800-Flowers.com consumer floral business, where we now have favorable Valentine’s Day placements for the next several years. There’s also the recently completed migration of our brands onto the multibrand platform, which enables us to drive more cross-brand marketing and merchandising programs, and create more multibrand customers.

During 2017 and beyond, we will continue to invest in, and implement, innovative, customer-centric solutions to enhance customer experience. We will further expand best practice initiatives across the company to drive incremental cost and revenue synergies. And, we will continue to differentiate our company as the leader in providing gifting solutions for all occasions.

**AA: Thank you, Chris.**

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Chris McCann, President and Chief Executive Officer of 1-800-FLOWERS.COM, Inc., is responsible for the company’s operations across all of its brands and businesses. He oversees the company’s strategic, operational, and organizational processes, including the development, implementation, and execution of annual and longer-term strategic, operating and budget plans. Since joining 1-800-FLOWERS.COM in 1984, Chris has played a pivotal role in helping the company build a reputation as one of the leading ecommerce and omni-channel retailers in the country. He has also become well known for embracing new technology innovations that foster enhanced customer engagement, particularly in the areas of social and mobile commerce, and the fast-emerging area of conversational commerce driven by artificial intelligence (AI) technology. He believes strongly in his company’s corporate mantra that their “best product is our customer experience.” Chris currently serves as vice chairman of the board of IGHL, a facility dedicated to the enrichment of the lives of developmentally disabled adults, a cause that is near to his heart. He also serves as a member of the board of trustees of Marist College, on the board of advisors for IBM WebSphere, and on the FedEx Ecommerce advisory board.

## Analyst Commentary

***““With a number of positive calendar shifts of key selling holidays upcoming over the balance of FY17, and our continued belief in the revenue growth and margin expansion opportunities of the company’s integrated model, we reiterate our Buy rating on FLWS... we consider 1-800-FLOWERS.COM to offer a platform that combines solid, if not exemplary, revenue growth potential with significant operating expense leverage capabilities that is amongst the leaders in the consumer retail industry.”***

—Eric Beder, Wunderlich  
February 1, 2017

***“We think FLWS’ unique, organically developed offerings could help drive sustainable long-term Consumer Floral revenue growth approaching 3-5% vs. the industry at 1-3%... we expect revenue growth will accelerate to at least 5% in H2/17 and into FY18, with FY18 revenue forecast to \$1.27 billion, and EBITDA growth of 8% at \$100.8 million, both of which we suspect could also prove conservative.”***

—Daniel L. Kurnos, Benchmark  
February 1, 2017

***“We view FLWS favorably given our expectation of continued annual revenue and bottom-line growth. In addition, we point to the company’s solid financial profile, with 1-800-FLOWERS.COM ending the seasonally strong Q2/17 with cash of \$114.0 million and debt of \$111.0 million, or a 28% total debt-to-capital ratio (versus 33% a year earlier).”***

—Anthony C. Lebedzinski, Sidoti & Company  
February 1, 2017

***“Floral should have strong growth in Q3/17 due to the favorable Tuesday Valentine’s Day placement... FLWS remains attractively valued, trading at just 6.1x CY18E EBITDA and our rating remains Buy... the Consumer Floral contribution margin was 13.4% vs. 12.4% (13.0% exp.), marking the tenth consecutive quarter with YoY margin expansion.”***

—Linda Bolton Weiser, B. Riley & Co.  
February 1, 2017

***“Floral businesses account for about 65% of 2H revenues, and we are confident that FLWS will continue to take market share from its largest competitor, FTD... consumers are shopping more online, food and floral gifts remain popular, especially for key gifting occasions such as Valentine’s Day and Mother’s Day, and FLWS has some of the most notable brands in the industry to satisfy consumer demand in these categories.”***

—Jeff Stein, Northcoast Research  
February 1, 2017

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## Disclosure

Investors and others should note that 1-800-FLOWERS.COM, Inc. posts important financial information using the investor relations section of the 1-800-FLOWERS.COM, Inc. website, [www.1-800-FLOWERS.COM](http://www.1-800-FLOWERS.COM), and Securities and Exchange Commission filings.

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## About Advisor Access

Advisor-Access LLC was designed to bring compelling investment ideas to investors in the form of in-depth interviews with company management and the latest fact sheets and corporate presentations, in a concise format: the critical pieces of information an investor needs to make an informed investment decision.

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