

# 1-800 Flowers.com, Inc. FLWS (NAS)

Last Close	Industry	Sector
2.92 USD	Specialty Retail	Consumer Cyclical

## Profile

Pricing data through 10 Feb 2012

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1-800-Flowers.Com Inc. provides customers around the world with the freshest flowers and finest selection of plants, gift baskets, gourmet foods and confections, and plush stuffed animals perfect for every occasion. It offers other products, popcorn, cookies, candy and wine, home and garden merchandise and unique toys and games for children. In addition to selecting its core products, the company's merchandising team works closely with manufacturers and suppliers to select and design products that meet the seasonal, holiday and other special needs of its customers. 1-800-Flowers.Com's differentiated and value-added product offerings create the opportunity to have a relationship with customers who purchase items not only for gift-giving occasions but also for everyday consumption. Customers can shop 1-800-FLOWERS.COM 24 hours a day, 7 days a week via the phone or Internet or by visiting a Company-operated or franchised store. The company's marketing and promotion strategy is designed to strengthen the 1-800-FLOWERS.COM brands, increase customer acquisition, build customer loyalty, and encourage repeat purchases. Its development of a hybrid fulfillment system which enables it to offer same-day, next-day and any-day delivery, combines the use of BloomNet, with the company-owned distribution centers and brand-name vendors who ship directly to the company's customers. The growing popularity and convenience of e-commerce has continued to give rise to established businesses on the Internet. 1-800-Flowers.Com has applied for or received trademark and/or service mark registration for, among others, 1-800-FLOWERS.COM, 1-800-FLOWERS, Plow & Hearth, Wind & Weather, GreatFood.com, The Popcorn Factory, TheGift.com etc.

# 1-800 Flowers.com, Inc. FLWS

**Sales USD Mil** 705 **Mkt Cap USD Mil** 190 **Industry** Specialty Retail **Sector** Consumer Cyclical

1-800 Flowers is a retailer selling items via its Web site, toll-free telephone number, catalogs, and retail stores. It offers floral arrangements, home and garden products, children's toys, food and wine items, gift baskets, and other specialty gifts under a wide range of names. Brands include Plow & Hearth, Magic Cabin, The Popcorn Factory, Cheryl&Co., Winetasting Network, and Fannie May, among others.

One Old Country Road Suite 500  
Carle Place, NY 11514  
Phone: 1 516 237-6000  
Website: <http://www.1800flowers.com>

Employees: 2300

Growth Rates	Compound Annual			
	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	3.3	-9.1	-2.5	4.5
Operating Income %	296.6	-28.9	15.6	—
Earnings/Share %	—	-34.5	12.5	—
Dividends %	—	—	—	—
Book Value/Share %	6.3	-15.5	-5.8	1.9
Stock Total Return %	4.7	8.1	-17.3	-14.0
+/- Industry	5.6	-23.8	-23.4	-23.8
+/- Market	3.1	-9.4	-15.9	-15.5

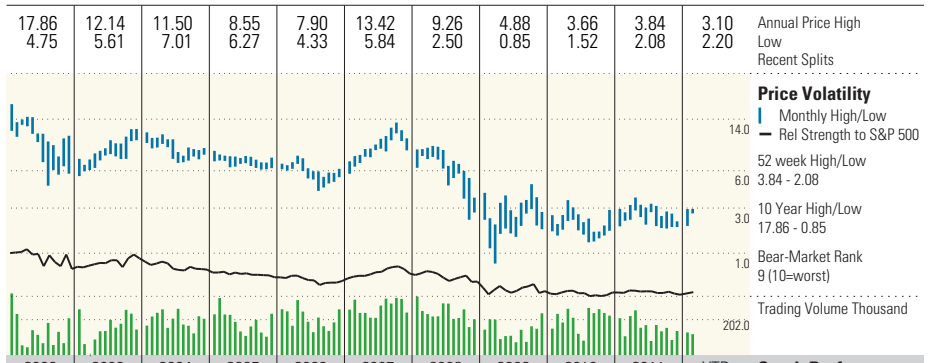
Profitability Analysis	Current	5 Yr Avg	Ind	Mkt
	Return on Equity %	7.5	-6.9	15.9
Return on Assets %	3.6	-3.7	6.6	9.5
Fixed Asset Turns	14.3	13.4	9.2	7.5
Inventory Turns	5.5	8.4	4.5	16.1
Revenue/Employee USD K	306.6	304.6*	—	1049.9
Gross Margin %	40.2	41.1	31.4	38.3
Operating Margin %	1.9	0.0	4.6	16.7
Net Margin %	1.4	-1.9	3.8	11.2
Free Cash Flow/Rev %	0.4	2.7	4.7	0.1
R&D/Rev %	2.9	0.0	—	9.7

Financial Position	06-11 USD Mil		09-11 USD Mil	
	Cash	21	—	6
Inventories	51	—	82	—
Receivables	15	—	25	—
Current Assets	101	—	129	—
Fixed Assets	50	—	50	—
Intangibles	83	—	85	—
Total Assets	257	—	285	—
Payables	—	—	—	—
Short-Term Debt	—	—	—	—
Current Liabilities	83	—	114	—
Long-Term Debt	29	—	26	—
Total Liabilities	115	—	142	—
Total Equity	142	—	142	—

Valuation Analysis	Current	5 Yr Avg	Ind	Mkt
	Price/Earnings	34.4	—	22.4
Forward P/E	13.7	—	—	13.5
Price/Cash Flow	9.0	14.1	11.7	7.4
Price/Free Cash Flow	69.9	—	18.4	16.9
Dividend Yield %	—	—	0.3	2.0
Price/Book	1.3	1.4	3.8	2.0
Price/Sales	0.3	0.3	0.9	1.2
PEG Ratio	0.9	—	—	1.4

**Morningstar Rating** — **Last Price** 2.92 **Fair Value** — **Uncertainty** — **Economic Moat™** — **Stewardship Grade** —

per share prices in USD



2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	YTD	Stock Performance
-59.9	77.0	-24.1	-23.6	-4.0	42.4	-56.4	-30.6	1.5	-18.2	32.7	Total Return %
-36.5	50.6	-33.1	-26.6	-17.6	38.9	-17.9	-54.0	-11.3	-18.2	25.9	+/- Market
-49.9	3.8	-51.3	-17.6	0.3	34.4	-13.2	-103.3	-26.1	-14.1	23.4	+/- Industry
—	—	—	—	—	—	—	—	—	—	0.0	Dividend Yield %
410	728	555	418	401	552	243	168	172	143	190	Market Cap USD Mil

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Financials
497	566	604	671	782	913	919	714	668	690	705	Revenue USD Mil
41.0	42.6	41.9	41.1	41.7	43.0	42.8	39.4	39.8	40.6	40.2	Gross Margin %
-4	12	21	12	7	35	37	-73	3	13	14	Oper Income USD Mil
-0.7	2.1	3.5	1.8	0.8	3.8	4.1	-10.2	0.5	1.9	1.9	Operating Margin %
-2	12	41	8	3	17	21	-98	-4	6	10	Net Income USD Mil
-0.02	0.18	0.60	0.12	0.05	0.26	0.32	-1.55	-0.07	0.09	0.15	Earnings Per Share USD
—	—	—	—	—	—	—	—	—	—	—	Dividends USD
65	68	68	67	66	66	65	64	64	65	65	Shares Mil
1.94	2.23	2.89	2.93	2.90	3.49	3.47	2.26	2.23	2.19	2.19	Book Value Per Share USD
12	20	42	10	15	32	58	28	40	31	21	Oper Cash Flow USD Mil
-12	-10	-11	-13	-20	-18	-20	-12	-15	-17	-18	Cap Spending USD Mil
0	9	32	-3	-6	14	38	16	25	14	3	Free Cash Flow USD Mil

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Profitability
-0.8	5.8	17.2	3.1	1.1	4.9	5.8	-29.9	-1.6	2.2	3.6	Return on Assets %
-1.3	9.4	25.3	4.2	1.7	8.7	9.7	-53.9	-3.2	4.2	7.5	Return on Equity %
-0.3	2.2	6.8	1.2	0.4	1.9	2.3	-13.8	-0.6	0.8	1.4	Net Margin %
2.47	2.68	2.54	2.61	2.61	2.61	2.54	2.17	2.46	2.69	2.52	Asset Turnover
1.7	1.6	1.4	1.4	1.8	1.8	1.6	2.1	1.9	1.8	2.0	Financial Leverage

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	09-11	Financial Health
23	27	84	42	41	51	33	44	23	18	15	Working Capital USD Mil
12	9	6	3	78	68	55	71	46	29	26	Long-Term Debt USD Mil
124	137	186	186	193	201	231	134	133	142	142	Total Equity USD Mil
0.10	0.07	0.03	0.02	0.40	0.34	0.24	0.53	0.34	0.21	0.18	Debt/Equity

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Valuation
49.3	42.0	14.8	76.9	45.5	27.3	—	—	—	25.9	34.4	Price/Earnings
—	—	—	—	—	—	—	—	—	1.5	2.4	P/E vs. Market
0.8	1.3	0.9	0.6	0.5	0.6	0.3	0.3	0.3	0.2	0.3	Price/Sales
3.2	5.0	2.9	2.2	2.1	2.5	1.1	1.2	1.2	1.0	1.3	Price/Book
22.1	24.1	18.0	14.4	36.2	9.1	30.2	3.3	21.3	6.8	9.0	Price/Cash Flow

Quarterly Results						
<b>Revenue</b> USD Mil	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	235.4	162.8	187.1	117.2		
Prior Year Period	238.4	155.5	165.4	104.5		
<b>Rev Growth</b> %	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	-1.3	4.7	13.1	12.1		
Prior Year Period	-27.6	-10.1	208.5	-3.5		
<b>Earnings Per Share</b> USD	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	0.21	-0.04	0.00	-0.01		
Prior Year Period	0.24	-0.11	-0.08	-0.08		

Industry Peers by Market Cap				
	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
1-800 Flowers.com, I	190	705	34.4	7.5

Major Fund Holders		% of shares
		—
		—
		—

\*3Yr Avg data is displayed in place of 5Yr Avg

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

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## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
CHRISTOPHER G. MCCANN	Director/President/President, Divisional, Director	906,751	01 Nov 2011	-
JEFFREY C. WALKER	Director	171,320	12 Dec 2011	-
JAMES A. CANNAVINO	Director	100,620	12 Dec 2011	-
JOHN J. CONEFRY, JR	Director	31,920	12 Dec 2011	-
GERARD M. GALLAGHER	General Counsel/Secretary/Senior VP, Divisional	24,125	14 Dec 2011	1,750
LAWRENCE V. CALCANO	Director	18,320	12 Dec 2011	-
LARRY ZARIN	Director	18,320	12 Dec 2011	-
LEONARD J. ELMORE	Director	18,320	12 Dec 2011	-

\*Report date represents the date on which the owner's common shares held was audited.

### Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Royce Opportunity Invmt	QQ	1.32	0.12	-36	31 Dec 2011
EQ/GAMCO Small Company Value IB	QQQQQ	0.91	0.07	10	30 Nov 2011
GAMCO Westwood Mighty Mites AAA	QQQQ	0.76	0.21	10	30 Sep 2011
iShares Russell 2000 (AU)		0.54	0.01	6	03 Feb 2012
Gabelli Small Cap Growth AAA	QQQQQ	0.40	0.03	6	30 Sep 2011
Concentrated Holders					
BIM Azionario USA	QQ	0.08	0.89	0	31 Jan 2012
Perritt Emerging Opportunities	QQQ	0.32	0.80	-88	31 Dec 2011
Bridgeway Ultra-Small Company	QQQ	0.29	0.64	0	30 Sep 2011
Johnson Disciplined Small-Cap	Q	0.02	0.55	0	31 Dec 2011

### Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
TFS Market Neutral	QQQQ	0.26	0.03	127	31 Jul 2011
SSgA Russell Small Cap Idx Fund Class A	QQQ	0.27	0.01	96	30 Jun 2011
Gerstein Fisher Multi-Factor Gr Eq Inst		0.06	0.10	39	31 Dec 2011
Bridgeway Omni Small-Cap Value N		0.04	0.11	27	30 Sep 2011
Bridgeway Omni Tax-Managed Sm-Cp Val N		0.04	0.10	20	30 Sep 2011
Top 5 Sellers					
Perritt Emerging Opportunities	QQQ	0.32	0.80	-88	31 Dec 2011
Royce Opportunity Invmt	QQ	1.32	0.12	-36	31 Dec 2011
Principal SmallCap Value II Inst	QQ	0.07	0.01	-21	31 Dec 2011
The Vanguard Total Stock Market Index	QQQQ	0.07	0.00	-17	30 Sep 2011

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## Industry Focus: Retail - Apparel & Specialty

### Apparel Investor Days Highlight Possible Winners and Losers

31 October 2011

Jaime M. Katz, CFA  
Equity Analyst

Gap repositions its merchandising; Limited capitalizes on successful marketing.

Recent global volatility across global economic and political markets has permitted greater visibility into the separation of businesses we think can sustain profitability from those that might struggle to achieve sustained profitability. Gap, Inc. GPS and Limited Brands LTD recently held investor days, which highlighted the long-term strategy each company is pursuing. With consumers that remain financially strained due to consistently high unemployment alongside still-inflated gas prices and depressed home prices (providing a negative wealth effect), creating the appropriate merchandising and marketing strategy with a tailored unit growth plan was a common theme that seemed imperative for success. We first look at Gap, Inc., whose investor day we attended on October 13. The morning highlighted the company's efforts to improve its merchandising and brand image. While the Gap brand remains the laggard of the group for now, the company's other brands have proven mostly successful and provide a small but powerful growth engine. We think the Athleta store we visited was impressive and should be successful in tapping into the fast-growing and lucrative women's athletic market. One of the more notable developments from the investor day was the company's plan to close 21% of its namesake locations (189 units) and about 2% of its Old Navy locations by 2013 (22 units). Reducing dependency on the overpenetrated North American market should allow Gap to refocus its efforts on penetrating a bigger piece of the fragmented \$1.4 trillion global apparel business by expanding through multiple channels and geographies. Gap is planning to make all of its distinct brands accessible globally with a strategy that incorporates specialty, outlet, online, and franchise locations in up to 90 countries. While we commend management for reaching out to a broader audience, we believe a more focused growth strategy might be easier to execute. With multiple brands growing in

different locations, the company has a number of diverse growth goals. Also mentioned at the meeting: growth in China, Italy, and Japan (for Old Navy), increasing its online/outlet presence, increasing its Athleta locations, and opening Piperlime footwear locations. Although Gap is only one brand of a much larger group, it is the biggest piece of the pie, and we think the company would benefit from focusing on correcting previous merchandising missteps before growing abroad, even while the company increases its smaller brands presence. On the merchandising side, the company needs to deliver more consistently on its product by focusing on properly tailoring its merchandise to the end consumer. Recent talent changes in design and merchandising assure us that the company is moving toward this goal and the creative and management teams are on the same page. Generally speaking, we found Gap's low-single-digit revenue growth and modest positive comp goals reasonable and achievable, but we would like to see the product improve before we put a date on when any of these metrics might be achieved. Gap's shares are slightly undervalued, trading at a 3% discount to our \$20 fair value estimate. However, the still uncertain global economic environment may bound this stock's range during the next few months. Until we are convinced the company's new merchandising strategy is a success, we would require a larger margin of safety before building a position in the name. One week later, on October 19, Limited Brands hosted its annual investor day. This morning was spent highlighting how management's disciplined approach to achieving its operating goals, evaluating its longer-term opportunities, and returning excess cash to shareholders has helped the company succeed in the past and will continue to do so going forward. Limited's growth of its strong brands, particularly market leaders Victoria's Secret and Bath Body Works, has been impressive in a difficult retailing environment. The focus moving forward is expected to be in the Victoria's Secret Brand and in International Markets. Victoria's Secret will be incorporating more of the Pink brand in additional locations (Pink currently has a full assortment in only 10 percent of Victoria's Secret locations), and new store locations with more square footage will add products

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### Industry Focus: Retail - Apparel & Specialty

from adjacent markets, like sport, loungewear, and swim, which we believe is a smart move. Victoria's Secret has some of the most impressive sales per selling square feet in the industry, forecast at \$721 for 2011, and we think adding volume in a productive capacity positions the overall company to win. It was estimated that the \$2 billion combined Victoria's Secret Beauty and Pink businesses have the estimated combined revenue potential of \$5 billion as square footage increases over the next five years, an estimate we find realistic, as it implies 20% compounded annual growth on a business opening more than 150 locations in the next year alone. Internationally, management has taken very slow and methodical steps to overseas expansion, which has proven successful. Victoria's Secret had only 12 international locations in Canada at year-end, which allowed the company to get its feet wet in a different currency, language, and culture without betting the bank. It plans to double that number globally by the end of 2012. New markets are similarly being tested using the VSBA (Beauty Accessories) concept in airport locations to understand new local markets. The company's willingness to open both corporate and franchised locations overseas indicates to us that management is willing to bring in expertise in certain local markets while maintaining creative control and creating a little financial flexibility overall (franchised locations use much less capital). At the beginning of the year, there were 580 international Limited Brands locations, and at the end of 2012, 850 units are expected, driven primarily by growth in La Senza (116 new units), VSBA (128 new units), and Bath and Body Works (44 new units). Despite the international push, the firm stated it believes there is a way to double the revenue in North America by improving on a number of concerns in the business (supply chain, customer experience, product testing). We think financial goals like these might be ambitious in the near term, and may take some time to accomplish. We view Limited's margin expansion goals as ambitious, but also more attainable. Management remains dedicated to improving the operating income rate to 15%, and last quarter's operating margin was a step in the right direction, as the margin expanded 200 basis points year over

year to 12.5%. The team also makes inventory control a priority, as it is committed to growing expenses slower than sales, which it has done impressively over the last two years. These goals are both achievable, and we would hope sustainable, although it may take a little time to reach the operating income goal. Limited's shares have had a healthy run recently, and we currently view them as overvalued, trading at a significant premium to our \$30 fair value estimate, though we plan to review a number of the company's key initiatives and their potential impact on our long-term valuation assumptions. We note if the company were to achieve its ambitious revenue growth and margin expansion targets, there would likely be upside to our current fair value estimate. Overall, the two investor days provided us with an interesting juxtaposition on one company (Limited Brands) that was experiencing strong growth and another (Gap) that was trying to get back on the right track. We note that even the best-run apparel retailers are subject to fashion cycles and competition from new entrants, but in the interim we are more concerned that the still-uncertain global economic environment may keep retail sales tempered over the holiday season. Still, we would not be surprised to see Limited Brands outperform while Gap, Inc. lags their competitors, at least in the near term.