

# Is the Bloom Off at FTD?

The flower giant, burdened with debt, faces newly aggressive challenges from its two main competitors

By Christopher Palmeri

With Valentine's Day nigh, the big flower merchants have slipped into marketing overdrive—creating bouquets with names like Petal Poetry, Love's First Bloom, and Butterfly Kisses. Behind the scenes, though, it's war.

FTD, burdened with debt following a stint in the hands of private equity, finds itself in a squeeze play between its two main rivals. Both 1-800-Flowers.com and Teleflora have entered retail and wholesale businesses FTD has long dominated. To make matters worse, the \$19 billion industry is slowing along with the economy.

Four years ago, Los Angeles buyout shop Leonard Green & Partners paid \$420 million for FTD Group. It's not hard to see what the private equity guys liked: FTD has an outstanding business model. It takes orders—say, for a dozen long-stemmed roses—and sends them to a network of 20,000 florists that, in exchange for the business, pay about \$300 a month in membership dues. FTD doesn't pay for the flowers, arrange them, or deliver them but collects at least 7% of the purchase order. So the company throws off a lot of cash. Plus, CEO Michael J. Soenen has kept a tight rein on expenses, lifting profits.

Trouble is, revenues are flat (thanks in part to discontinued products, says Soenen) and might be shrinking if, in



2006, it hadn't acquired a British floral network. Even worse, before relisting the company in 2005, Leonard Green loaded up FTD with \$250 million in debt. Add \$50 million borrowed for the acquisition, and you have a company that may be loath to spend at a time when its rivals are muscling in.

The biggest thorn in FTD's side is i-800-Flowers.com. Founder James F. McCann transformed the industry by allowing people to order flowers by phone. Last year, 1-800-Flowers took in 11.6 million orders for flowers, candies, and gift baskets in the U.S., vs. FTD's 4.6 million.

For years,

McCann used FTD's florist network to complete orders. Then, two years ago, he decided to take on FTD, forming his own network, called BloomNet. McCann has been offering florists rebates to persuade them to use his network. He says 9,000 have signed up so far. And though his network's revenues are a quarter the size of FTD's, BloomNet is growing much faster.

Presumably, Teleflora is also giving Soenen heartburn. For years the privately held company mostly handled orders between florists. But now it's making a bigger play for FTD's (and i-800-Flowers') consumer business, too. Teleflora says its online store, launched in 2004, is growing at a double-digit clip.

## BIG-NAME BOUQUETS

Given the competitive pressure, Brean Murray Carret analyst Eric Beder figures Soenen should do two things. One is cut florists' membership fees to prevent him from losing business to 1-800-Flowers.com. Beder also thinks Soenen should spend more on advertising. By contrast, Teleflora says it has stepped up advertising. It is sponsoring NBC's America's Favorite Mom contest on Mother's Day and is offering Valentine's Day rose buyers a chance to win a \$50,000 diamond necklace. Not to be left out, i-800-Flowers has teamed up with Martha Stewart to create a line of bouquets that will debut this spring.

FTD isn't exactly sitting around watching the grass grow. The company has signed up Vera Wang and Todd Oldham to create bouquets. It is offering flowers grown sustainably and arranged in vases made from recycled glass. And Soenen says FTD can afford to spend more. But he is profit-obsessed—and handily beat Wall Street's expectations last quarter. Plus, since this is a cash-flow play, the stock, now at about 13, would probably suffer if he started throwing money around. Not that this will be Soenen's problem much longer. Sometime after Mother's Day, he is stepping down as CEO (though he will remain chairman). His successor won't inherit a bed of roses. **|BW|**

Leonard Green & Partners bought FTD in 2004. Before relisting it in 2005, the private equity shop loaded it up with millions in debt