GATOR CAPITAL MANAGEMENT

Florists' Transworld Delivery Companies (NASDAQ: FTD)

Company Background:

FTD Companies is a floral and gifting company. The company is best known for the FTD Network through which consumers can order flowers at their local floral shop for delivery to the recipient in another city. The local florist takes the order, collects payment, and transmits the order over the FTD Network to a florist in the recipient's city who delivers the flowers. The FTD Network is an attractive asset-light business with a network effect giving FTD a defensible competitive advantage.

FTD went public in November 2013 when the company was spun-off from United Online. This is the third-time that FTD has been a public company. In 1994, FTD was demutualized by Perry Capital and was publicly traded. In 2004, the private equity firm, Leonard Green, took FTD private. FTD held another IPO in 2005. In 2008, United Online acquired FTD. This history shows that the high-margin stable nature of the FTD network is attractive to private-equity buyers.

In July 2014, FTD announced an interesting transaction that we believe improves the FTD investment case immensely. FTD announced that it was acquiring Provide Commerce from Liberty Media. Provide owns many different flower and gift brands, but the most significant is ProFlowers. Of course Liberty is controlled by cable TV mogul John Malone. Malone has a long history of value enhancing deal making. In the FTD/Provide deal, Liberty will retain a 35% stake in the combined company and get 4 board seats.

We built a position in FTD shortly after the announcement of the Provide Commerce acquisition.

Investment Thesis:

1. Asset-light business – FTD benefits from owning the network, so it doesn't have to own the physical assets of florist shops. This creates an asset-light business model with high free cash flow because there is limited need for capital reinvestment.

2. High Free Cash Flow – In addition to being a good cash flow business, FTD's free cash flow is even higher than its earnings due to the acquisition amortization charges resulting from the United Online purchase of FTD in 2008. Most of the amortization will finish in 2014, so 2015 earnings per share will be closer to the actual free cash flow of the company.

3. Stable competitive position – FTD's business has been in existence for over 100 years. The network of small florist shops benefit from their association with FTD. They receive more orders for local delivery and they are able to capture some of the economies of orders placed with them.

4. Beneficiary of consumers ordering flowers on the web – As consumers order through the web, FTD benefits by capturing its fair share of these web orders. The power of its brand generates a reasonable amount of organic web traffic. FTD captures a higher profit per order when the consumer places the order directly on the FTD website.

5. Transaction with John Malone controlled - Provide Commerce is a Catalyst -

a. Synergies – FTD will be able to shift ProFlowers's same-day flower orders onto its network and will earn the transaction fees that are currently paid to a competitor.

ProFlowers overnight distribution capability will allow FTD to internalize a portion of its order flow. FTD and ProFlowers will also be able consolidate some management and website costs.

b. Reasonable valuation – Including synergies, FTD is paying about 7.5x Provide Commerce's EBITDA. We believe this is an attractive price.

c. Malone presence adds value – With Malone's ownership and control of 4 board seats, we believe FTD will be less likely to make a bad acquisition. Also, we expect the company's cash flow to be used for stock repurchases.

6. Underleveraged balance sheet – FTD has a stable cash flow business. In fact, when it was taken private by Leonard Green in 2005, FTD had a debt-to-EBITDA ratio greater than 4x on its balance sheet. After the Provide Commerce transaction closes, FTD will have a ratio of just 2.4x debt-to-EBITDA on its balance sheet.

7. Under-followed small cap – FTD is under-followed by Wall Street. No major brokerage firms publish research on the company. With just a $600 million market cap and coming public through a non-promoted spin-off, the stock does not have sponsorship from Wall Street. This lack of sponsorship means the company is more likely to be improperly valued by the market.

Investment Risks:

1. Low-growth segment – The floral industry is a slow growth industry. Industry growth over the past five years has been low single digits.

2. Grocery stores and big box retailers taking market share – Grocery stores are taking share from florist shops. Grocers tend to have lower prices and more self-service flower options.

3. Small florist shops closing – The number of florist shops are closing at about a 2% annual rate. FTD benefits from a fragmented industry with more participants.

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