

ACCOUNTING

in the headlines

How is 1-800-FLOWERS.COM's earnings quality from 2013 – 2015?

Harry London, a steelworker in Canton, Ohio, started making chocolates for his family and friends around the start of the 20th Century. By 1922, he had enough demand for his fine chocolates that he left his steel-working job and started Harry London Candies. Harry London used the kitchen in his home to create his chocolates until a home fire in the 1950s. Harry London then opened its first candy store and factory, also in Canton, Ohio.

In 2006, Harry London Candies joined the 1-800-FLOWERS.COM, Inc., corporation ([FLWS](#)). In addition to Harry London Candies, 1-800-FLOWERS.COM owns and operates Fannie May (chocolates), The Popcorn Factory, 1-800-Baskets.com, Harry & David (gourmet pears and other fruit), Cheryl's (cookies), FruitBouquets, and its flagship florist brand, 1-800-Flowers.

In the last few months, some stock analysts have rated 1-800-FLOWERS.COM favorably. As of December 31, 2015, the company's stock price was \$7.28. On April 15, 2016, its stock price was \$7.72, which represented an increase of more than 6% in less than four months.

See an adapted and condensed version of 1-800-FLOWERS.COM's income statement (statement of operations) from 2013 – 2015 on page 2 of this handout.

Questions

1. Calculate 1-800-FLOWERS.COM's cost of goods sold to net sales ratio for each of the three years presented in the income statement for 2013 – 2015. (Divide the company's cost of revenues by its net revenues.) From 2013 to 2015, did the company's cost of goods sold to sales ratio improve, deteriorate, or remain the same?
2. Calculate 1-800-FLOWERS.COM's gross margin to net sales ratio for each of the three years presented in the income statement for 2013 – 2015. (Divide the company's gross margin by its net revenues.) From 2013 to 2015, did the company's gross margin to sales ratio improve, deteriorate, or remain the same?
3. Calculate 1-800-FLOWERS.COM's operating expenses to net sales ratio for each of the three years presented in the income statement for 2013 – 2015. (Divide the company's operating expenses by its net revenues.) From 2013 to 2015, did the company's operating expenses to sales ratio improve, deteriorate, or remain the same?
4. Based on just the calculations you made, what is your opinion of 1-800-FLOWERS.COM's earnings quality? Does your opinion agree with the analysts' favorable ratings?

1-800-FLOWERS.COM, Inc., and Subsidiaries

Consolidated Statements of Income

(in thousands, except share data)

	Years Ended		
	6/28/2015	6/29/2014	6/30/2013
Net revenues	1,121,506	756,345	735,497
Cost of revenues	634,311	440,672	430,305
Gross profit	487,195	315,673	305,192
Operating expenses	449,578	291,967	279,406
Operating income	37,617	23,706	25,786
Interest expense and other	7,303	1,357	991
Income before taxes	30,314	22,349	24,795
Income tax expense	10,930	8,403	9,073
Income from continuing operations	19,384	13,946	15,722
Loss from discontinued operations	-	(86)	(1,889)
Gain (loss) on sale of discontinued operations	-	815	(1,512)
Net income	19,384	14,675	12,321
Less: Net loss attributable to noncontrolling interest	(903)	(697)	-
Net income attributable to 1-800-FLOWERS.COM	20,287	15,372	12,321

Source: 1-800-FLOWERS.COM, Inc., 2015 Form 10-K