

Five Below, Inc. (FIVE)

\$103.30 (As of 07/08/20)

Price Target (6-12 Months): **\$109.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/10/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: C

Summary

Shares of Five Below have underperformed the industry in the past three months. This can be attributed to the company's dismal first-quarter fiscal 2020, wherein it reported a wider-than-expected loss. Also, sales delivered a negative surprise for the second straight quarter. However, the company is reopening stores and portraying impressive initial sales trends. Five Below is registering higher average tickets in the stores, partly offset by lower transactions as customers are currently consolidating trips. Moreover, the pent-up demand and the government stimulus program are likely to support modest sales growth. No wonder, the company remains on track with its focus on merchandise assortment, enhancement of digital and e-commerce channels, pricing strategy, expanding store base, improving supply chain and delivering better WOW products.

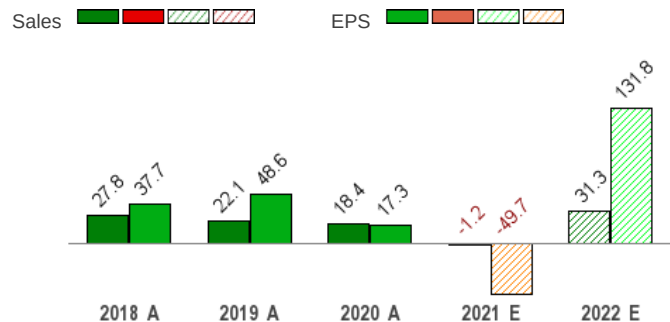
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$137.97 - \$47.53
20 Day Average Volume (sh)	905,787
Market Cap	\$5.8 B
YTD Price Change	-19.2%
Beta	1.22
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Miscellaneous
Zacks Industry Rank	Top 18% (44 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-160.0%
Last Sales Surprise	-10.9%
EPS F1 Est- 4 week change	-24.5%
Expected Report Date	08/26/2020
Earnings ESP	0.0%
P/E TTM	59.7
P/E F1	65.8
PEG F1	2.6
P/S TTM	3.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					2,397 E
2021	201 A	410 E	430 E	791 E	1,825 E
2020	365 A	417 A	377 A	687 A	1,847 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.21 E	\$0.55 E	\$0.22 E	\$2.56 E	\$3.64 E
2021	-\$0.91 A	\$0.13 E	\$0.20 E	\$2.14 E	\$1.57 E
2020	\$0.35 A	\$0.50 A	\$0.18 A	\$1.96 A	\$3.12 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/08/2020. The reports text is as of 07/09/2020.

Overview

Based in Pennsylvania, in January 2002, Five Below, Inc. is a specialty value chain retailer that provides a wide range of premium quality and trendy merchandise for \$5 or below. The company mainly targets teenagers or pre-teen shoppers for its products which include certain brands and licensed merchandise. Notably, these products belong to categories such as Style, Room, Sports, Tech, Create, Party, Candy and Now.

Style: Consists of novelty socks, sunglasses, jewelry, scarves, gloves, hair accessories, athletic tops and bottoms and "attitude" t-shirts.

Room: Consists of items such as glitter lamps, posters, frames, fleece blankets, plush items, pillows, candles, incense, lighting, novelty décor and related items.

Sports: Consists of sport balls, team sports merchandise and fitness accessories, including hand weights, jump ropes and gym balls. It also comprises games, including name brand board games, puzzles, collectibles and toys including remote control.

Tech: Consists of a selection of accessories for cell phones, tablets, audio and computers. The offering includes cases, chargers, headphones and other related items.

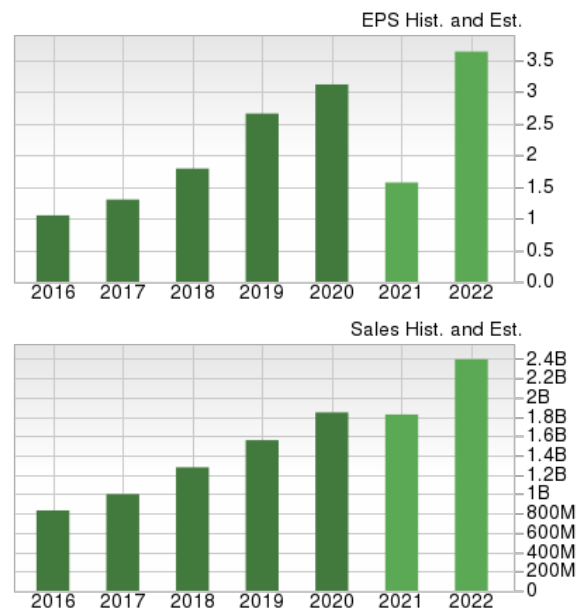
Create: Consists of craft activity kits, as well as arts and crafts supplies such as crayons, markers and stickers. It also includes items for school such as backpacks, fashion notebooks and journals, novelty pens and pencils and locker accessories.

Party: Consists of party goods, decorations, gag gifts and greeting cards, as well as every day and special occasion merchandise.

Candy: Consists of classic and novelty candy bars and movie-size box candy, seasonal-related candy as well as gum and snack food.

Now: Consists of seasonally-specific items used to celebrate and decorate for events such as Christmas, Easter, Halloween and St. Patrick's Day.

Ever since it opened its first store, Five Below has expanded its operations to Northeast, South and Midwest areas of the United States. Five Below launched its e-commerce site, fivebelow.com and began selling through same in August 2016. As of May 2, 2020, Five Below operated 920 stores in 36 states.



Reasons To Buy:

- ▲ **Strategic Endeavors:** The company's commitment toward enhancing customer experience via refresh store format and remodel program is commendable. Moreover, it has been focusing on enhancing merchandise assortment, improving supply chain, strengthening digital capabilities, delivering better WOW products and reimagined front-end. Moreover, as part of its digital endeavors, the company acquired e-commerce platform, fulfillment operation and certain other assets of Hollar.com. The company is working on digitizing vendor transactions, implementing core merchandizing platform and rolling out cloud based data and analytics platform to analyze demand, and accordingly optimize inventory. Also, the company made an investment in a gaming company called Nerd Street Gamers in order to attract children and teenagers. Five Below rolled out curbside pickup, and looks to accelerate buy online, pick up in-store (BOPUS) business model. E-commerce sales grew more than four times in the first quarter of fiscal 2020, when stores remained closed owing to the pandemic, but still formed a very small portion of the top line. Five Below anticipates e-commerce penetration to remain in the low single digit range in relation to overall sales for fiscal 2020.
- ▲ **Reopening Stores:** Five Below has been reopening stores, as government eases lockdown restrictions. Markedly, the company started reopening stores in late April itself and had about 90% of its stores reopened as of Jun 9, depicting impressive initial sales trends. Management informed that comparable sales for reopened stores, including e-commerce business, were up approximately 8% for the second quarter through Jun 9. Five Below is registering higher average tickets in the stores, partly offset by lower transactions as customers are currently consolidating trips. We note that the company's second-quarter results are likely to benefit from the pent-up demand and government stimulus program to an extent.
- ▲ **Solid Product Range & Comfortable Pricing:** Five Below's primary focus on teens and pre-teens, helps the company enhance customer base by attracting shoppers. Further, the company is known for its impressive range of merchandise, as the company remains committed toward making innovations and refreshing its product range per the evolving consumer trends. With respect to merchandise, the company is focusing on essential goods, consumables and everyday items, such as healthcare and personal care that customers are looking for now days. On marketing front, the company is focusing on digital advertising. These factors combined with the company's pricing strategy of selling products for \$5 or below enable it to cater to demographic shoppers, alongside resonating with value-seeking customers. Moreover, its products priced up to \$10 are also getting positive customer response. We believe that Five Below's wide assortment of trend right merchandise, solid in-store and online experience along with favorable pricing strategy are likely to remain major growth drivers. Further, the company remains focused on achieving efficient cost structure, solid average net sales per store, supply-chain initiatives and economies of scale.
- ▲ **Store Update:** Five Below remains committed toward expanding its store base, as well as enhancing the in-store experience to draw traffic and enhance customer base. The company believes that expanding scale helps it gain access to renowned shopping centers; capitalize on the emerging market trends and increase brand value. During the first quarter of fiscal 2020, the company opened 20 net new stores. This took the total count to 920 stores in 36 states, reflecting an increase of 16.6% from the year-ago period's store count. The company now expects to open 100-120 net new stores in 2020, representing 11-13% growth over 2019. The company had earlier planned to open 180 stores. Incidentally, Five Below opened 150 new stores in fiscal 2019. Further, the company envisions of having a network of more than 2,500 stores in the United States in the long run. Management now anticipates capital expenditures of roughly \$200 million for fiscal 2020 compared to pre-COVID-19 estimate of \$270 million. This reflects the planned investments in the new Texas and West distribution centers, new stores and remodels, and investments in systems and infrastructure. The company had earlier unveiled its plan to remodel approximately 300 stores in the next few years.
- ▲ **Actions to Mitigate COVID-19 Impact:** Amid the crisis, Five Below undertook several cost-cutting measures to preserve its financial position. To this end, the company had furloughed most of its store and distribution center workers, canceled merchandise orders, procrastinated payments and curtailed capital expenditure plan for 2020. The company now plans to open Texas distribution center late in the second quarter and to begin the building of Midwest distribution center in 2021, with the expectations for it to open in 2022. The West distribution center remains on track to open in the second half of 2021. Now with most of its stores operational, the company believes that it is well positioned on all fronts.
- ▲ **Financial Stability:** Five Below entered second quarter with a strong debt-free balance sheet. Management stated that the business itself funds its growth while generating cash. The company ended the first quarter with cash and cash equivalents of \$69.8 million and short-term investment securities of \$69.2 million. Total shareholders' equity was \$689.8 million at the end of the reported quarter. The company had no debt, including nothing outstanding on its \$225 million line of credit. We note that the company had expanded its line of credit by \$175 million to \$225 million as of the quarter-end.

The company remains on track with its focus on merchandise assortment, enhancement of digital and e-commerce channels, pricing strategy, expanding store base, improving supply chain and delivering better WOW products.

Reasons To Sell:

- ▼ **Dismal Q1 Performance:** Five Below reported dismal first-quarter fiscal 2020 results. The company reported loss per share wider than the Zacks Consensus Estimate. Also, sales tumbled year over year and delivered a negative surprise for the second straight quarter. Results were marred by store closures undertaken by the company in the wake of coronavirus. Further, the company did not offer any top or bottom-line guidance for the second quarter, given the uncertainty surrounding the pandemic.

The company posted a quarterly loss of 91 cents per share, which includes a benefit of 2 cents related to share-based accounting. The Zacks Consensus Estimate stood at a loss of 35 cents. Net sales slumped 44.9% to \$200.9 million from the year-ago quarter and fell short of the Zacks Consensus Estimate of \$225.6 million. Again, gross profit collapsed considerably to \$20.5 million compared with \$120 million in the year-ago period. Again, gross margin contracted from 32.9% to 10.2%. This was accountable to lower sales stemming from store closures as well as the related fixed-cost deleverage. Although shares of Five Below have gained 24%, they have underperformed the industry's 29.8% rally in the past three months.

First quarter results were marred by store closures undertaken by the company in the wake of coronavirus. Further, the company did not offer any top or bottom-line guidance for the second quarter.

- ▼ **Soft Q1 Comps:** Comparable sales tumbled 51.8% during the quarter under review following a dip of 2.2% in the preceding period. This was accountable to the store closures as well as loss of Easter selling days. Results were only partly cushioned by e-commerce strength. Till Mar 11 (when coronavirus was declared a pandemic), comparable sales registered a rise of 2.9%.
 - ▼ **Stock Appears Overvalued:** Considering Price-to-Earnings (P/E) ratio, Five Below looks significantly overvalued when compared with the industry and the S&P 500. The stock has a trailing 12-month P/E of 59.71X, compared with 20.47X for the industry and 20.5X for the S&P 500. The company's trailing 12-month P/E ratio is above the median level of 47.3X but below the high level of 65.71X scaled over a year.
 - ▼ **Dip in Consumer Sentiment May Impact Sales:** Any dip in consumer confidence – a key determinant of the economy's health – may have serious bearing on spending. The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their sentiment. For now, the novel coronavirus has wreaked havoc. The retail sector, in particular, remains under pressure. Again, job losses as well as lower disposable income due to this catastrophe are making things worse. Consumers are avoiding discretionary spending and focus on necessities for the time being.
 - ▼ **Seasonal Nature of Business Could Hamper Performance:** Five Below has stores in Northeast and Midwest areas of the United States, which are usually vulnerable to unpleasant weather conditions — including major storms. Also, the company generates a substantial part of revenues and gross margins in the final quarter of every fiscal, as it includes the holiday season. Thus, any unfavorable weather conditions are likely to impact the company's financial as well operating performance.
 - ▼ **Competitive Pressure:** Five Below competes with many other industry players including mass merchandise, discount, grocery and convenience store retailers among others. The company competes with these retailers on grounds of advertising and marketing efforts, alongside financial and distribution resources. Moreover, responsiveness to the evolving trends remains a point of competition. Pressure from online retailers also remains a threat for Five Below.
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Last Earnings Report

Five Below Posts Wider-Than-Expected Q1 Loss

Five Below, Inc. reported dismal first-quarter fiscal 2020 results. The company reported loss per share wider than the Zacks Consensus Estimate. Also, sales tumbled year over year and delivered a negative surprise for the second straight quarter. Results were marred by store closures undertaken by the company in the wake of coronavirus. Further, the company did not offer any top or bottom-line guidance for the second quarter, given the uncertainty surrounding the pandemic.

Quarter Ending 04/2020

Report Date	Jun 09, 2020
Sales Surprise	-10.93%
EPS Surprise	-160.00%
Quarterly EPS	-0.91
Annual EPS (TTM)	1.73

Markedly, the company started reopening stores in late April itself and had about 90% of its stores reopened as of Jun 9, depicting impressive initial sales trends. Management informed that comparable sales for reopened stores, including e-commerce business, were up approximately 8% for the second quarter through Jun 9.

Amid the crisis, Five Below undertook several cost-cutting measures to preserve its financial position. To this end, the company had furloughed most of its store and distribution center workers, canceled merchandise orders, procrastinated payments and curtailed capital expenditure plan for 2020. Now with most of its stores operational, the company believes that it is well positioned on all fronts. With respect to merchandise, the company is focusing on essential goods, consumables and everyday items, such as healthcare and personal care that customers are looking for now days. On marketing front, the company is focusing on digital advertising.

Let's Delve Deeper

Five Below posted a quarterly loss of 91 cents per share, which includes a benefit of 2 cents related to share-based accounting. The Zacks Consensus Estimate stood at a loss of 35 cents. Net sales slumped 44.9% to \$200.9 million from the year-ago quarter and fell short of the Zacks Consensus Estimate of \$225.6 million. Results were affected by coronavirus-led store closures.

Incidentally, all stores were closed from Mar 20, which considerably affected the company's results. However, e-commerce sales grew more than four times in the quarter, though it still formed a very small portion of the top line. Five Below still anticipates e-commerce penetration to remain in the low single digit range in relation to overall sales for 2020.

Comparable sales tumbled 51.8% during the quarter under review following a dip of 2.2% in the preceding period. This was accountable to the store closures as well as loss of Easter selling days. Results were only partly cushioned by e-commerce strength. Till Mar 11 (when coronavirus was declared a pandemic), comparable sales registered a rise of 2.9%.

Gross profit collapsed considerably to \$20.5 million compared with \$120 million in the year-ago period. Again, gross margin contracted from 32.9% to 10.2%. This was accountable to lower sales stemming from store closures as well as the related fixed-cost deleverage.

We note that SG&A expenses dipped nearly 3% to \$92.7 million, while as a percentage of net sales the same expanded from 26.2% to 46.1%. Five Below posted an operating loss of \$72.2 million against an operating income of \$24.5 million in the same period last year.

Financials

It ended the quarter with cash and cash equivalents of \$69.8 million and short-term investment securities of \$69.2 million. Total shareholders' equity was \$689.8 million at the end of the reported quarter. The company had no debt, including nothing outstanding on its \$225 million line of credit.

Management now anticipates capital expenditures of roughly \$200 million for fiscal 2020 compared to pre-COVID-19 estimate of \$270 million. This reflects the planned investments in the new Texas and West distribution centers, new stores and remodels, and investments in systems and infrastructure.

Till the middle of first-quarter fiscal 2020, the company bought back 137,023 shares for about \$12.7 million. Additionally, Five Below expanded its line of credit by \$175 million to \$225 million as of the quarter-end.

Store Updates

During the quarter, the company opened 20 net new stores. This took the total count to 920 stores in 36 states, reflecting an increase of 16.6% from the year-ago period's store count. The company still expects to open 100-120 net new stores in 2020, representing 11-13% growth over 2019. The company had earlier planned to open 180 stores. Further, the company envisions of having a network of more than 2,500 stores in the United States in the long run.

Valuation

Five Below shares are down 19.2% in the year-to-date period and 19% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 7.8% but the Zacks Retail-Wholesale sector is up 22.6%, in the year-to-date period. Over the past year, the Zacks sub-industry is down 13.4% but the sector is up 28.7%.

The S&P 500 index is down 0.4% in the year-to-date period but up 8.4% in the past year.

The stock is currently trading at 41.7X forward 12-month earnings, which compares to 22.99X for the Zacks sub-industry, 35.03X for the Zacks sector and 22.64X for the S&P 500 index.

Over the past five years, the stock has traded as high as 48.14X and as low as 14.12X, with a 5-year median of 30.65X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$109 price target reflects 44X forward 12-month earnings.

The table below shows summary valuation data for FIVE

Valuation Multiples - FIVE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	41.7	22.99	35.03	22.64
	5-Year High	48.14	24.19	35.03	22.64
	5-Year Low	14.12	11.52	19.14	15.27
	5-Year Median	30.65	15.95	23.28	17.59
P/S F12M	Current	2.78	0.77	1.22	3.53
	5-Year High	4.34	1.17	1.22	3.53
	5-Year Low	1.27	0.51	0.82	2.52
	5-Year Median	2.38	0.9	0.96	3.04
EV/EBITDA TTM	Current	37.04	12.37	19.72	12.1
	5-Year High	40.27	12.96	19.72	12.45
	5-Year Low	13.57	6.55	10.72	8.04
	5-Year Median	20.01	9.53	12.78	10.76

As of 07/08/2020

Industry Analysis Zacks Industry Rank: Top 18% (44 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Bed Bath&Beyond Inc. (BBBY)	Outperform	3
Burlington Stores, Inc. (BURL)	Neutral	3
DICKS Sporting Goods, Inc. (DKS)	Neutral	3
Foot Locker, Inc. (FL)	Neutral	3
Hibbett Sports, Inc. (HIBB)	Neutral	2
The Michaels Companies, Inc. (MIK)	Neutral	3
Shoe Carnival, Inc. (SCVL)	Neutral	3
Zumiez Inc. (ZUMZ)	Neutral	3

Industry Comparison Industry: Retail - Miscellaneous				Industry Peers		
	FIVE	X Industry	S&P 500	HIBB	MIK	ZUMZ
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	F	-	-	B	C	C
Market Cap	5.76 B	1.24 B	21.57 B	376.61 M	1.01 B	678.75 M
# of Analysts	9	7	14	2	4	5
Dividend Yield	0.00%	0.12%	1.94%	0.00%	0.00%	0.00%
Value Score	D	-	-	A	B	B
Cash/Price	0.02	0.28	0.07	0.28	0.92	0.31
EV/EBITDA	23.49	6.77	12.68	6.76	6.35	6.28
PEG Ratio	2.48	3.64	2.88	3.19	5.42	NA
Price/Book (P/B)	8.35	1.23	3.03	1.23	NA	1.57
Price/Cash Flow (P/CF)	25.88	5.05	11.62	5.47	2.24	7.46
P/E (F1)	63.09	15.69	21.12	24.63	6.83	15.72
Price/Sales (P/S)	3.42	0.38	2.27	0.34	0.21	0.71
Earnings Yield	1.52%	5.22%	4.44%	4.08%	14.60%	6.37%
Debt/Equity	1.27	1.09	0.76	0.61	-2.62	0.63
Cash Flow (\$/share)	3.99	3.12	6.94	4.16	3.06	3.58
Growth Score	F	-	-	C	F	F
Hist. EPS Growth (3-5 yrs)	27.67%	8.20%	10.90%	-12.24%	6.28%	18.24%
Proj. EPS Growth (F1/F0)	-49.68%	-49.90%	-9.99%	-60.30%	-52.49%	-35.19%
Curr. Cash Flow Growth	19.42%	6.68%	5.51%	15.81%	-14.92%	27.31%
Hist. Cash Flow Growth (3-5 yrs)	27.57%	2.61%	8.55%	-4.23%	1.68%	3.02%
Current Ratio	1.58	1.51	1.30	1.56	1.20	2.39
Debt/Capital	55.99%	58.85%	44.46%	38.04%	NA	38.47%
Net Margin	5.87%	3.28%	10.62%	-1.42%	3.59%	4.69%
Return on Equity	14.23%	9.84%	15.75%	5.39%	-13.67%	10.76%
Sales/Assets	0.91	1.25	0.55	1.46	1.22	1.08
Proj. Sales Growth (F1/F0)	-1.16%	-4.57%	-2.57%	0.00%	-5.06%	-6.14%
Momentum Score	C	-	-	D	B	B
Daily Price Chg	4.87%	1.03%	0.23%	-0.13%	-0.72%	0.45%
1 Week Price Chg	-0.06%	4.23%	3.66%	12.70%	5.38%	6.98%
4 Week Price Chg	-9.12%	-1.24%	-4.65%	9.62%	12.57%	-1.62%
12 Week Price Chg	27.69%	49.45%	11.62%	94.70%	180.74%	28.07%
52 Week Price Chg	-19.01%	-1.03%	-7.46%	18.40%	-16.26%	10.20%
20 Day Average Volume	905,787	482,732	2,368,260	407,486	4,757,515	288,511
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	42.31%	0.00%	0.00%
(F1) EPS Est 4 week change	-24.52%	0.00%	0.00%	42.31%	0.00%	0.00%
(F1) EPS Est 12 week change	-35.24%	-34.25%	-7.67%	-19.57%	-33.50%	-2.46%
(Q1) EPS Est Mthly Chg	-30.66%	-1.76%	0.00%	0.00%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	F
Momentum Score	C
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

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