

Five Below, Inc. (FIVE)

\$104.66 (As of 05/27/20)

Price Target (6-12 Months): **\$89.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/23/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: B

Summary

Shares of Five Below have declined and underperformed the industry in the past six months. The stock came under pressure in spite of the company registering a decent fourth-quarter fiscal 2019 performance, wherein both net sales and earnings per share grew year over year. We note that this specialty value retailer witnessed a decline in comparable sales. Management had earlier informed that six fewer shopping days between Thanksgiving and Christmas hurt comparable sales performance. We note that comparable sales fell 2.2% during the quarter. Certainly, the company remains concerned about the coronavirus outbreak that resulted in temporary store closure. This is likely to get reflected in first-quarter fiscal 2020 results. It also refrained from providing any guidance because the financial implications of the same cannot be gauged at this juncture.

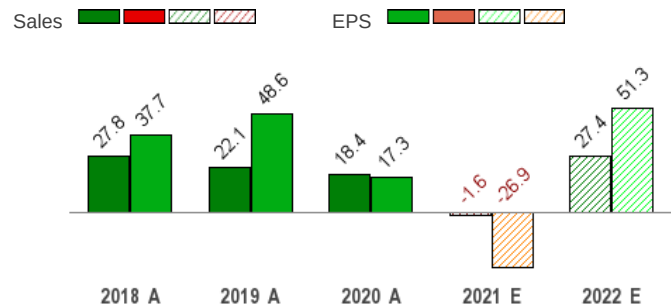
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$137.97 - \$47.53
20 Day Average Volume (sh)	1,014,053
Market Cap	\$5.8 B
YTD Price Change	-18.2%
Beta	1.13
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Miscellaneous
Zacks Industry Rank	Bottom 27% (176 out of 248)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.0%
Last Sales Surprise	-0.0%
EPS F1 Est- 4 week change	-6.0%
Expected Report Date	06/09/2020
Earnings ESP	-85.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					2,314 E
2021	292 E	411 E	397 E	746 E	1,817 E
2020	365 A	417 A	377 A	687 A	1,847 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	-\$0.03 E	\$0.41 E	\$0.18 E	\$2.43 E	\$3.45 E
2021	-\$0.14 E	\$0.31 E	\$0.12 E	\$1.99 E	\$2.28 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.

P/E TTM	35.0
P/E F1	45.9
PEG F1	1.8
P/S TTM	3.2

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/27/2020. The reports text is as of 05/28/2020.

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.

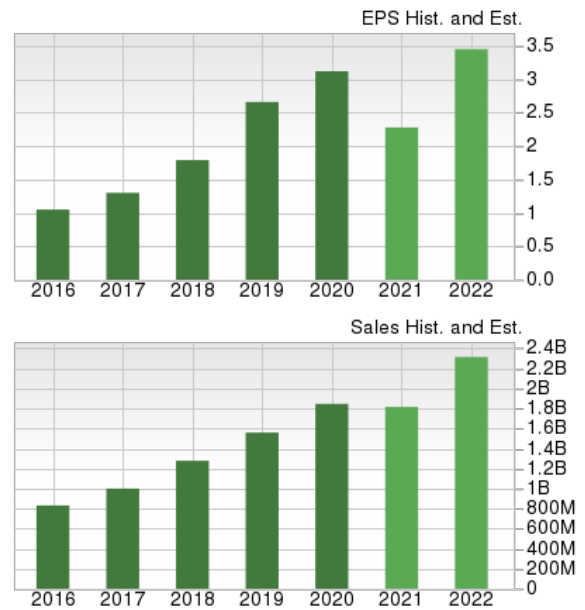
Create: Consists of craft activity kits, as well as arts and crafts supplies such as crayons, markers and stickers. It also includes items for school such as backpacks, fashion notebooks and journals, novelty pens and pencils and locker accessories.

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](https://www.fivebelow.com) and began selling through same in August 2016. Five Below operates approximately 900 stores across 36 states.



Reasons To Sell:

- ▼ **Dismal Stock Performance:** Shares of Five Below have declined 15.4% during the past six months, and underperformed the industry that lost 8%. The stock came under pressure in spite of the company registering a decent fourth-quarter fiscal 2019 performance, wherein both net sales and earnings per share grew year over year. We note that this specialty value retailer witnessed a decline in comparable sales during the quarter. Certainly, the company remains concerned about the coronavirus outbreak that has jeopardized the global economy. In response to it, the company temporarily closed its stores. This would not only have hurt sales and productivity but would also have escalated the cost burden as the company continued to provide pay and benefits to impacted associates during the temporary closure. Management has refrained from providing any guidance because the financial implications of the pandemic cannot be gauged at this juncture.
- ▼ **Soft Q4 Comps:** Five Below witnessed a decline in comparable sales during the fourth quarter of fiscal 2019. Management had earlier informed that six fewer shopping days between Thanksgiving and Christmas hurt comparable sales performance. Comparable sales fell 2.2% during the quarter under review following an increase of 2.9% in the preceding period and 4.4% in the year-ago quarter. The company registered 3.6% decline in comp transactions, partly offset by 1.4% rise in comp average ticket. Shares of Five Below have declined 44% during the past six months, and underperformed the industry that lost 41%.
- ▼ **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 35X, compared with 13.85X for the industry and 19.28X for the S&P 500. The company's trailing 12-month P/E ratio is below the median level of 46.24X and the high level of 51.44X scaled over a year.
- ▼ **SG&A Expenses Continues to Increase:** SG&A expenses have been increasing for quite some time now. After increasing 31.7%, 20.6% and 22.5% in the first, second and third quarters of fiscal 2019, respectively, SG&A expenses rose 13.7% to \$145 million during the final quarter. Analysts believe that SG&A expenses are likely to increase in the near future due to store growth. Certainly, this will to an extent hurt the company's operating income, unless fully offset by substantial increase in net sales.
- ▼ **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 due to major supply-chain bottlenecks, reduced traffic, an increasing number of store closures and limited hours of working. Again, analysts are expecting job losses as well as lower disposable income due to this catastrophe. This could compel consumers to avoid discretionary spending and focus on necessities for the time being. This may adversely impact the company's growth and profitability.
- ▼ **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.

We note that SG&A expenses rose owing to depreciation expenses associated with opening of new Southeast distribution center and adoption of the new lease accounting standard.

Risks

- **Decent Q4 Performance:** Five Below continued with its decent performance in the fourth quarter of fiscal 2019 as well, wherein the top line met the Zacks Consensus Estimate, while the bottom line surpassed the same. Notably, both net sales and earnings per share improved year over year. The quarterly earnings of \$1.97 per share, improved 23.9% from \$1.59 reported in the year-ago period. The company highlighted that the fourth quarter of both fiscal 2019 and fiscal 2018 include benefit from share-based accounting of approximately 1 cent. Excluding the same, earnings came in at \$1.96 per share, up 24.1% year over year. The bottom line surpassed the Zacks Consensus Estimate of \$1.94. Meanwhile, net sales grew 14% to \$687.1 million from the year-ago quarter, and came in line with the Zacks Consensus Estimate.
- **Strategic Endeavors:** The company's commitment toward enhancing customer experience via refresh store format, remodel program and Ten Below test 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 a new service, curbside pickup, and looks to expand the capability across hundreds of its outlets this week. Currently, this service is being offered in roughly 40 stores across Florida, Tennessee, California and Texas. Moreover, it has been focusing on strengthening its digital capabilities.
- **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. Incidentally, Five Below opened 150 new stores in fiscal 2019 compared to 125 net new stores in the prior year. The company remodeled 50 stores during fiscal 2019. During the fourth quarter, the company opened 6 new stores, following 61 openings in the preceding quarter. This took the total count to 900 stores in 36 states, reflecting an increase of 20% from the year-ago period store count. It also intends to incorporate a Ten Below zone in most of the new and remodeled stores. The company expects to remodel approximately 300 stores in the next few years. Ten Below concept is now in about 25 stores. Further, the company envisions of having a network of more than 2,500 stores in the long run.

Certainly, Five Below remains concerned about the coronavirus outbreak that resulted in temporary closure of stores. Nonetheless, the company has begun the process of reopening stores and looks to open most by early June. Around 17 outlets across Arkansas, Iowa and Nebraska are opened and another 100-plus stores were opened in five other states. For fiscal 2020, the company sets a goal of accomplishing 100-120 new store openings compared with the initial target of 180.

- **Solid Product Range & Comfortable Pricing to Fuel Growth:** 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. 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 is 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.
- **Actions to Mitigate COVID-19 Impact:** Management has announced financial actions to sail through the tough times. These actions include prioritization of capital projects, pay cuts and new store opening targets. The company continues to progress on its new web platform and expand related digital capabilities, with a goal to open a West distribution center in 2021. Meanwhile, it decided to defer the opening of a Midwest distribution center till 2022. It also intends to put in place a temporary pay cut for all corporate associates, and some field and supply chain leadership, effective May 3. Previously, it had announced a temporary reduction of 50% in the base salary of the company's CEO and a temporary 25% base salary reduction for the rest of the executive leadership team. The company's board of directors also decided to forgo cash retainers for first-quarter fiscal 2020. Further, annual pay increment for corporate associates was delayed.

It has also furloughed associates and cut non-payroll costs significantly, including advertising, occupancy, other store operating expenses, distribution and corporate office operating expenses, and professional and consulting fees. It has also been managing inventory levels. Furthermore, the company has entered into a new \$225 million asset-based revolving credit facility with Wells Fargo, strengthening its financial status. This three-year facility replaces the prior \$50-million credit facility with Wells Fargo.

Last Earnings Report

Five Below Q4 Earnings Beat Estimates, Increase Y/Y

Five Below, Inc. reported fourth-quarter fiscal 2019 results, wherein the top line met the Zacks Consensus Estimate, while the bottom line surpassed the same. Notably, both net sales and earnings per share improved year over year.

However, this specialty value retailer witnessed a decline in comparable sales. Management had earlier informed that six fewer shopping days between Thanksgiving and Christmas hurt comparable sales performance.

Certainly, the company remains concerned about the coronavirus outbreak, and in response it has decided to keep stores closed from today evening till March 31st. The company also decided not to provide first quarter or fiscal 2020 view.

The company's commitment toward enhancing customer experience via refresh store format, remodel program and Ten Below test 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.

Let's Delve Deeper

The quarterly earnings of \$1.97 per share, improved 23.9% from \$1.59 reported in the year-ago period. The company highlighted that the fourth quarter of both fiscal 2019 and fiscal 2018 include benefit from share-based accounting of approximately 1 cent. Excluding the same, earnings came in at \$1.96 per share, up 24.1% year over year. The bottom line surpassed the Zacks Consensus Estimate of \$1.94.

Meanwhile, net sales grew 14% to \$687.1 million from the year-ago quarter, and came in line with the Zacks Consensus Estimate.

Comparable sales fell 2.2% during the quarter under review following an increase of 2.9% in the preceding period and 4.4% in the year-ago quarter. The company registered 3.6% decline in comp transactions, partly offset by 1.4% rise in comp average ticket.

Gross profit grew 18.5% year over year to \$289.1 million due to higher sales. Again, gross margin expanded 160 basis points to 42.1% on account of improvement in merchandise margins, lower incentive compensation and distribution efficiencies, partly offset by deleverage in store occupancy costs.

We note that SG&A expenses rose 13.7% to \$145 million, while as a percentage of net sales the same decreased 10 basis points to 21.1%. Operating income came in at \$144.1 million, up 23.7%, while operating margin expanded 165 basis points to 21%.

Financials

Five Below ended the quarter with cash and cash equivalents of \$202.5 million and short-term investment securities of \$59.2 million. Notably, the company had no debt. Total shareholders' equity was \$759.8 million at the end of the reported quarter. During fiscal 2019, the company bought back approximately 338,000 shares at a total cost of about \$37 million. Management incurred capital expenditure of approximately \$212 million in fiscal 2019.

Store Updates

During the quarter under review, Five Below opened six new stores. This took the total count to 900 stores in 36 states, reflecting an increase of 20% from the year-ago period store count. The company has opened 150 new stores in fiscal 2019 compared to 125 net new stores opened in the prior year. The company remodeled 50 stores during fiscal 2019.

Quarter Ending 01/2020

Report Date	Mar 18, 2020
Sales Surprise	-0.04%
EPS Surprise	1.03%
Quarterly EPS	1.96
Annual EPS (TTM)	2.99

Recent News

Five Below Reopens Stores – April 29, 2020

Five Below announced that it has begun the process of reopening stores and looks to open most by early June. Around 17 outlets across Arkansas, Iowa and Nebraska were opened last week, with another 100-plus stores opened in five other states this week.

In addition, management has announced financial actions that include prioritization of capital projects, pay cuts and new store opening targets. The company continues to progress on its new web platform and expand related digital capabilities, with a goal to open a West distribution center in 2021. Meanwhile, it decided to defer the opening of a Midwest distribution center till 2022. For fiscal 2020, the company sets a goal of accomplishing 100-120 new store openings compared with the initial target of 180. It also intends to put in place a temporary pay cut for all corporate associates, and some field and supply chain leadership, effective May 3.

Furthermore, the company has entered into a new \$225 million asset-based revolving credit facility with Wells Fargo, strengthening its financial status. This three-year facility replaces the prior \$50-million credit facility with Wells Fargo.

Valuation

Five Below shares are down 18.1% in the year-to-date period and 16.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 12.6% but the Zacks Retail-Wholesale sector is up 5.8%, in the year-to-date period. Over the past year, the Zacks sub-industry is down 22.2% but the sector is up 20.3%.

The S&P 500 index is down 7% in the year-to-date period but up 7.3% in the past year.

The stock is currently trading at 39.35X forward 12-month earnings, which compares to 21.79X for the Zacks sub-industry, 31.01X for the Zacks sector and 21.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 47.11X and as low as 14.12X, with a 5-year median of 30.63X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$89 price target reflects 33.45X 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	39.35	21.79	31.01	21.75
	5-Year High	47.11	21.79	31.01	21.75
	5-Year Low	14.12	11.59	19.07	15.23
	5-Year Median	30.63	16.08	23.24	17.49
P/S F12M	Current	2.95	1.02	1.06	3.37
	5-Year High	4.34	1.37	1.12	3.44
	5-Year Low	1.27	0.74	0.81	2.53
	5-Year Median	2.36	1.14	0.94	3.01
EV/EBITDA TTM	Current	24.56	14.94	17.3	11.07
	5-Year High	39.05	17.92	17.44	12.86
	5-Year Low	13.57	9.83	10.52	8.26
	5-Year Median	19.94	15.08	12.66	10.8

As of 05/27/2020

Industry Analysis Zacks Industry Rank: Bottom 27% (176 out of 248)



Top Peers

Company (Ticker)	Rec	Rank
Bed BathBeyond Inc. (BBBY)	Neutral	3
Hibbett Sports, Inc. (HIBB)	Neutral	4
Shoe Carnival, Inc. (SCVL)	Neutral	3
Burlington Stores, Inc. (BURL)	Underperform	3
DICKS Sporting Goods, Inc. (DKS)	Underperform	5
Foot Locker, Inc. (FL)	Underperform	5
The Michaels Companies, Inc. (MIK)	Underperform	4
Zumiez Inc. (ZUMZ)	Underperform	5

Industry Comparison Industry: Retail - Miscellaneous				Industry Peers		
	FIVE	X Industry	S&P 500	HIBB	MIK	ZUMZ
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Underperform	Underperform
Zacks Rank (Short Term)	4	-	-	4	4	5
VGM Score	B	-	-	B	A	A
Market Cap	5.83 B	1.17 B	21.39 B	322.45 M	580.47 M	642.88 M
# of Analysts	9	5.5	14	2	4	6
Dividend Yield	0.00%	0.00%	1.97%	0.00%	0.00%	0.00%
Value Score	D	-	-	A	A	A
Cash/Price	0.05	0.20	0.06	0.21	0.95	0.46
EV/EBITDA	23.18	8.31	12.63	6.64	6.54	5.81
PEG Ratio	1.81	2.26	2.91	1.86	0.63	NA
Price/Book (P/B)	7.67	1.15	2.99	1.03	NA	1.40
Price/Cash Flow (P/CF)	26.22	5.04	11.80	4.70	1.29	7.07
P/E (F1)	46.06	16.39	21.42	26.98	2.93	16.77
Price/Sales (P/S)	3.16	0.34	2.29	0.29	0.11	0.62
Earnings Yield	2.18%	5.63%	4.44%	3.73%	34.01%	5.97%
Debt/Equity	1.10	0.89	0.76	0.58	-2.77	0.61
Cash Flow (\$/share)	3.99	3.12	6.96	4.16	3.06	3.58
Growth Score	A	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	31.64%	9.15%	10.87%	-9.27%	10.09%	14.25%
Proj. EPS Growth (F1/F0)	-26.96%	-34.54%	-10.41%	-68.88%	-36.37%	-42.43%
Curr. Cash Flow Growth	19.42%	6.68%	5.46%	15.81%	-14.92%	27.31%
Hist. Cash Flow Growth (3-5 yrs)	27.57%	2.72%	8.55%	-4.23%	1.68%	3.02%
Current Ratio	1.89	1.47	1.29	1.59	1.34	2.58
Debt/Capital	52.44%	57.44%	44.54%	36.90%	NA	37.92%
Net Margin	9.48%	3.40%	10.59%	-1.42%	5.37%	6.47%
Return on Equity	24.91%	9.22%	16.29%	5.26%	-20.71%	15.82%
Sales/Assets	1.05	1.40	0.55	1.45	1.35	1.17
Proj. Sales Growth (F1/F0)	-1.62%	-3.12%	-2.34%	0.00%	-3.12%	-8.21%
Momentum Score	B	-	-	C	B	A
Daily Price Chg	4.38%	4.03%	2.29%	4.49%	23.51%	8.35%
1 Week Price Chg	11.93%	6.57%	4.99%	29.28%	1.38%	12.01%
4 Week Price Chg	12.95%	12.95%	2.47%	24.19%	10.99%	11.70%
12 Week Price Chg	6.60%	-1.43%	-6.13%	-2.74%	-0.38%	-2.35%
52 Week Price Chg	-16.80%	-14.36%	0.67%	-14.36%	-58.00%	27.01%
20 Day Average Volume	1,014,053	584,587	2,423,651	419,008	3,947,217	279,613
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-6.00%	-0.27%	-2.07%	-36.96%	0.00%	0.00%
(F1) EPS Est 12 week change	-37.03%	-39.45%	-16.07%	-73.15%	-39.69%	-43.19%
(Q1) EPS Est Mthly Chg	1.89%	1.89%	-3.59%	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	A
Momentum Score	B
VGM Score	B

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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