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Dec 31, 2019

Five Below, Inc. (FIVE)

$128.91 (As of 12/30/19)

Price Target (6-12 Months): **$137.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 03/21/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:F
	Value: D | Growth: F | Momentum: C	

Summary

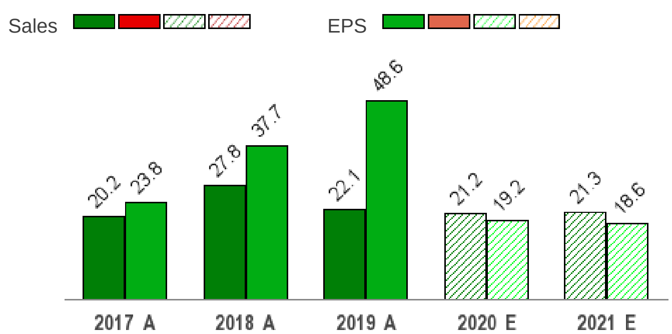
Shares of Five Below have risen and outpaced the industry in a year. The company's merchandise assortment, focus on pre-teen customers, enhancement of digital and e-commerce channels, and pricing strategy help it stand tall in the dynamic retail landscape. Also, it remains focused on expanding store base, improving supply chain and delivering better WOW products. Strategic endeavors, healthy performance of new outlets and decent comps run aided Five Below to post better-than-expected third-quarter fiscal 2019 results. This prompted management to lift the low end of fiscal 2019 sales and earnings view. Although net sales continued to improve, earnings per share fell year over year. We note that higher cost of goods sold and SG&A expenses hurt the bottom line. Management expects SG&A expenses to deleverage slightly in fiscal 2019.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$148.22 - $99.06**
20 Day Average Volume (sh)	**1,301,755**
Market Cap	**$7.2 B**
YTD Price Change	**26.0%**
Beta	**0.53**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Retail - Miscellaneous**
Zacks Industry Rank	**Top 4% (10 out of 253)**
Last EPS Surprise	**5.9%**
Last Sales Surprise	**0.9%**
EPS F1 Est- 4 week change	**0.1%**
Expected Report Date	**03/25/2020**
Earnings ESP	**0.8%**
P/E TTM	**49.4**
P/E F1	**40.7**
PEG F1	**1.6**
P/S TTM	**4.1**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	450 E	513 E	460 E	884 E	2,293 E
2020	365 A	417 A	377 A	730 E	1,890 E
2019	296 A	348 A	313 A	603 A	1,560 A

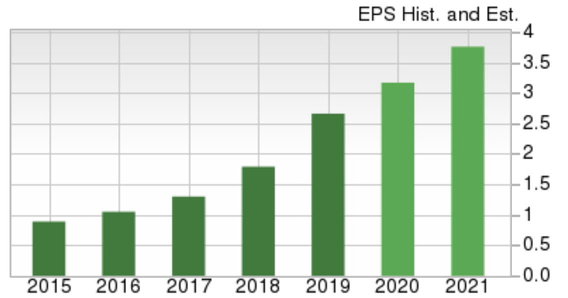
EPS Estimates

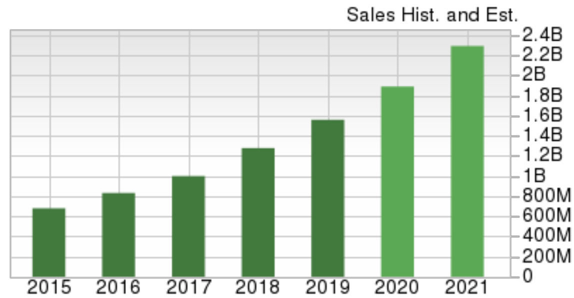
	Q1	Q2	Q3	Q4	Annual*
2021	$0.46 E	$0.61 E	$0.22 E	$2.45 E	$3.76 E
2020	$0.35 A	$0.50 A	$0.18 A	$2.02 E	$3.17 E
2019	$0.35 A	$0.42 A	$0.22 A	$1.58 A	$2.66 A

*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 12/30/2019. The reports text is as of 12/31/2019.

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. Five Below operates approximately 900 stores across 36 states.

Reasons To Buy:

> Five Below remains focused on achieving efficient cost structure, solid average net sales per store, supply-chain initiatives and economies of scale.

▲ **Impressive Stock Performance:** Shares of Five Below have risen 26% in a year and outpaced the industry that rose 3.1%. The stock's impressive run can be attributed to continuation of decent performance in the third quarter of fiscal 2019 as well. This specialty value retailer's top and the bottom line surpassed the Zacks Consensus Estimate. Again, net sales continued to improve year over year. Results also exceeded management's expectations. Impressive performance prompted management to lift the low end of fiscal 2019 sales and earnings view. Five Below envisions fiscal 2019 net sales in the range of $1.877-$1.892 billion and earnings between $3.11 and $3.19 per share. The company had earlier forecast net sales in the band of $1.872-$1.892 billion and earnings between $3.08 and $3.19 per share.

Moreover, the company registered 12th successive quarter of comparable sales growth. The company highlighted that it remains committed toward enhancing customer experience via refresh store format, remodel program and Ten Below test. The company is focusing on improving supply chain, delivering better WOW products and reimagined front-end. The reimagined front-end experience is now in roughly 160 stores and Ten Below concept is now in about 25 stores. Also, the company made an investment in a gaming company called Nerd Street Gamers.

▲ **Focus on Expanding Store Base:** 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. In fact, the company's solid store remodeling is a major reason behind its robust comps performance. Incidentally, Five Below opened 125 new stores during fiscal 2018. During the third quarter of fiscal 2019, the company opened 61 new stores. This took the total count to 894 stores in 36 states, reflecting an increase of 20% from the year-ago period store count. Since the end of the third quarter, the company has opened six stores thereby attaining its planned target of opening 150 new stores for the fiscal year. Five Below remains on track to complete 50 remodels during fiscal 2019. The company expects to remodel approximately 300 stores in the next few years with greater percentage of remodels next year compared to current fiscal year. Further, the company envisions of having a network of more than 2,500 stores in the long run.

▲ **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. 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.

▲ **Impressive Comps Trend:** Five Below has been witnessing positive comparable store sales (comps) growth for 12 straight quarters now. Evidently, comps rose 1% in fourth-quarter fiscal 2016, and 2.6%, 9.3%, 8.5% and 5.9% in the first, second, third and fourth quarters of fiscal 2017, respectively. Comparable sales increased 3.2%, 2.7%, 4.8% and 4.4% in the first, second, third and fourth quarter of fiscal 2018, respectively. During the first, second and third quarters of fiscal 2019, comps increased 3.1%, 1.4% and 2.9%, respectively, driven by improvement in transactions and comp ticket. Five Below now expects comps to improve 2.5% during fiscal 2019 and in the band of 2-3% in the fourth quarter.

Reasons To Sell:

- **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 49.39x, compared with 14.86x for the industry and 20.09x for the S&P 500. The company's trailing 12-month P/E ratio is above the median level of 48.42x but below the high level of 58.16x 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% and 20.6% in the first and second quarters of fiscal 2019, respectively, SG&A expenses rose 22.5% to $106 million during the third quarter, while as a percentage of net sales the same deleveraged 40 basis points to 28.1% owing to depreciation expenses associated with the opening of new Southeast distribution center and adoption of the new lease accounting standard. 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.

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.

- **Q3 Operating Margin Shrunk:** After shrinking 160 and 10 basis points during the first and second quarters of fiscal 2019, respectively, operating margin contracted roughly 160 basis points to 3.4% during the third quarter. The company envisions operating margin to increase more than 100 basis points in the fourth quarter but deleverage slightly in fiscal 2019.

- **Competitive Pressure & Dip in Consumer Sentiment:** 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.

  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. This may adversely impact its growth and profitability.

Last Earnings Report

Five Below Beats on Q3 Earnings, Updates FY19 View

Quarter Ending	10/2019
Report Date	**Dec 04, 2019**
Sales Surprise	**0.93%**
EPS Surprise	**5.88%**
Quarterly EPS	**0.18**
Annual EPS (TTM)	**2.61**

Five Below, Inc. reported third-quarter fiscal 2019 results, wherein both the top and the bottom line surpassed the Zacks Consensus Estimate. Although net sales continued to improve year over year, earnings per share declined from the year-ago period. Nonetheless, results exceeded management's expectations.

This specialty value retailer sustained comparable sales momentum with rate of growth accelerating on a sequential basis. Impressive performance prompted management to lift the low end of fiscal 2019 sales and earnings view. However, the company's fourth-quarter projection, which is below the current Zacks Consensus Estimate. Nonetheless, management remains committed toward enhancing customer shopping experience via refresh store format, reimagined front-end, remodel program and new Ten Below Gift Shop section. The company is focusing on improving supply chain and delivering better WOW products.

Let's Delve Deeper

The quarterly earnings of 18 cents a share beat the Zacks Consensus Estimate by a penny and surpassed management's guided range of 14-17 cents. However, it came below the prior-year reported figure of 24 cents, which includes share-based accounting benefit of approximately 2 cents. Higher cost of goods sold and SG&A expenses might have hurt the bottom line. Meanwhile, net sales grew 20.7% to $377.4 million from the year-ago quarter. The top line also outdid the Zacks Consensus Estimate of $374 million, following a miss in the preceding two quarters.

Comparable sales rose 2.9% during the quarter under review following an increase of 1.4% in the preceding period and 4.8% in the year-ago quarter. The company registered 1% improvement in transactions and 1.9% increase in comp ticket. Comparable sales performance came above management's expectation of 2-3%.

Gross profit grew 16.3% year over year to $118.7 million due to higher sales. However, gross margin contracted 120 basis points to 31.4% on account of net unmitigated tariff costs and the shift of other merchandise costs to the third quarter from the second. We note that SG&A expenses rose 22.5% to $106 million, while as a percentage of net sales the same increased 40 basis points to 28.1% owing to depreciation expenses associated with opening of new Southeast distribution center and adoption of the new lease accounting standard.

Operating income came in at $12.7 million, down 18.4%, while operating margin shrunk 160 basis points to 3.4%. The company envisions operating margin to increase more than 100 basis points in the fourth quarter but deleverage slightly in fiscal 2019.

Management expects fourth-quarter operating margin to expand on account of improved merchandise margin on toy product, slight leverage from the new distribution center, and the benefit of tariff mitigation efforts including cut in corporate expenses. These gains are likely to be offset in part by the depreciation of new Southeast distribution center and the new lease accounting standard.

Financials

Five Below ended the quarter with cash and cash equivalents of $77.5 million and short-term investment securities of $54.1 million. Notably, the company had no debt. Total shareholders' equity was $645.4 million at the end of the reported quarter. During the quarter, the company bought back approximately 191,367 shares at a total cost of about $20.3 million. Management expects to incur capital expenditure of approximately $210 million in fiscal 2019.

Store Updates

During the quarter under review, the company opened 61 new stores. This took the total count to 894 stores in 36 states, reflecting an increase of 20% from the year-ago period store count. Since the end of the third quarter, the company has opened six stores thereby attaining its planned target of opening 150 new stores for the fiscal year. Five Below remains on track to complete 50 remodels during fiscal 2019. The company expects to remodel approximately 300 stores in the next few years with greater percentage of remodels next year compared to current fiscal year.

Outlook

Five Below now envisions fiscal 2019 net sales in the range of $1.877-$1.892 billion with comparable sales expected to improve 2.5%. We note that fiscal 2018 net sales came in at $1,559.6 million, while comparable sales rose 3.9%. Management now projects earnings between $3.11 and $3.19 per share, which is up from $2.66 reported in fiscal 2018, which includes share-based accounting benefit of approximately 9 cents. The company had earlier forecast net sales in the band of $1.872-$1.892 billion and earnings between $3.08 and $3.19 per share.

For the fourth quarter, management anticipates net sales between $717 million and $732 million and comparable sales growth of 2-3%. We note that fourth-quarter fiscal 2018 net sales came in at $602.7 million, while comparable sales improved 4.4%. The company forecasts fourth-quarter earnings in the range of $1.97-$2.05, which is above the prior-year reported figure of $1.59.

Valuation

Five Below shares are up 26% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 3.1% and 25.3%, respectively. The S&P 500 index is up 27.3% in the past year.

The stock is currently trading at 34.87X forward 12-month earnings, which compares to 13.42X for the Zacks sub-industry, 25.08X for the Zacks sector and 18.65X for the S&P 500 index.

Over the past five years, the stock has traded as high as 47.11X and as low as 21.71X, with a 5-year median of 30.62X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $137 price target reflects 36.96X 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	34.87	13.42	25.08	18.65
	5-Year High	47.11	20.29	26.13	19.34
	5-Year Low	21.71	12.7	18.99	15.17
	5-Year Median	30.62	15.03	22.89	17.44
P/S F12M	Current	3.18	1	1.02	3.39
	5-Year High	4.34	1.21	1.1	3.41
	5-Year Low	1.55	0.86	0.8	2.54
	5-Year Median	2.28	1.06	0.9	3
EV/EBITDA TTM	Current	33.18	14.05	15.31	12.01
	5-Year High	38.97	16.34	15.31	12.86
	5-Year Low	13.9	10.95	10.27	8.49
	5-Year Median	19.38	14.05	12.32	10.65

As of 12/30/2019

Industry Analysis **Zacks Industry Rank:** Top 4% (10 out of 253)

Top Peers

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

Industry Comparison Industry: Retail - Miscellaneous

Industry Peers

	FIVE Neutral	X Industry	S&P 500	HIBB Outperform	MIK Neutral	ZUMZ Outperform
VGM Score	F	-	-	B	B	C
Market Cap	7.18 B	1.45 B	23.75 B	479.47 M	1.10 B	876.27 M
# of Analysts	7	3	13	2	5	6
Dividend Yield	0.00%	0.00%	1.79%	0.00%	0.00%	0.00%
Value Score	D	-	-	A	A	C
Cash/Price	0.02	0.11	0.04	0.16	0.10	0.21
EV/EBITDA	33.58	7.27	13.92	8.71	7.27	10.99
PEG Ratio	1.60	1.52	2.12	0.92	0.55	1.16
Price/Book (P/B)	11.12	1.30	3.32	1.45	NA	2.05
Price/Cash Flow (P/CF)	38.64	5.98	13.73	8.12	2.23	11.96
P/E (F1)	40.67	10.97	19.56	11.29	3.48	13.95
Price/Sales (P/S)	4.07	0.41	2.67	0.41	0.21	0.87
Earnings Yield	2.46%	8.86%	5.10%	8.86%	28.74%	7.16%
Debt/Equity	1.22	0.86	0.72	0.55	-2.47	0.67
Cash Flow ($/share)	3.34	3.34	6.94	3.41	3.35	2.84
Growth Score	F	-	-	C	C	D
Hist. EPS Growth (3-5 yrs)	30.70%	11.48%	10.53%	-10.42%	11.36%	7.86%
Proj. EPS Growth (F1/F0)	19.12%	8.95%	6.30%	38.42%	-8.51%	36.03%
Curr. Cash Flow Growth	39.97%	10.02%	14.83%	8.16%	0.85%	32.85%
Hist. Cash Flow Growth (3-5 yrs)	30.11%	8.72%	9.00%	-5.96%	8.72%	0.50%
Current Ratio	1.57	1.45	1.23	1.63	1.19	2.20
Debt/Capital	55.02%	51.52%	42.99%	35.34%	NA	40.24%
Net Margin	8.74%	3.82%	11.08%	2.34%	5.30%	5.80%
Return on Equity	23.01%	10.84%	17.10%	12.75%	-22.75%	14.42%
Sales/Assets	1.17	1.54	0.55	1.65	1.54	1.28
Proj. Sales Growth (F1/F0)	21.18%	0.00%	2.86%	14.11%	-3.94%	4.64%
Momentum Score	C	-	-	D	F	B
Daily Price Chg	2.77%	0.33%	-0.43%	2.07%	-6.50%	3.95%
1 Week Price Chg	0.24%	1.34%	0.13%	-1.85%	29.66%	2.54%
4 Week Price Chg	6.82%	5.63%	2.78%	1.43%	-4.59%	11.05%
12 Week Price Chg	2.61%	3.08%	8.67%	25.22%	-21.35%	11.23%
52 Week Price Chg	25.99%	6.21%	27.07%	93.43%	-44.76%	77.15%
20 Day Average Volume	1,301,755	323,828	1,731,328	532,851	6,177,344	663,939
(F1) EPS Est 1 week change	0.06%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.15%	0.00%	0.00%	0.00%	-11.87%	12.82%
(F1) EPS Est 12 week change	0.06%	0.19%	0.14%	11.87%	-11.56%	12.91%
(Q1) EPS Est Mthly Chg	0.13%	0.00%	0.00%	0.00%	-12.85%	10.83%

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.

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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.