

Five Below, Inc. (FIVE)

Model Stock Study Club
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Director, Rocky Mountain Board
3/17/2020



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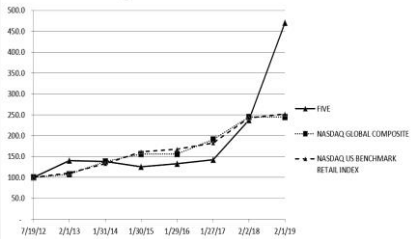
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FIVE Below, Inc. (FIVE)

Comparison of Cumulative Total Return



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FIVE Below, Inc. (FIVE)

- Five Below, Inc. is a discount retailer in 36 states
- Sell items priced \$1-\$5 each
- Marketing to Generation Z boys and girls aged 8-14
- Marketing to Millennial/GenX young parents
- Started selling online in 2016
- Testing new price points, \$5.55 and \$10

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FIVE Below, Inc.

Source: Annual Report
DC = Distribution Center

FIVE BEL'W THROUGH THE YEARS



THEIR: In a local coffee shop, two friends and business partners, David Schlesinger (founder of Zany Brainy) and Tom Wilcox, had their brainstorming for the next big retail concept. They landed on an idea for the ultimate kids' brand that will soon become Five Below!

- 2002** • FIRST STORE OPENS IN WAYNE, PA
- 2003** • ICONIC 'S SPALDING BASKETBALL STARTS SELLING
- 2008** • 100TH STORE OPENS IN PITTSBURGH
- 2009** • FACEBOOK PAGE LAUNCHES (*DON'T FORGET TO FOLLOW US!*)
- 2012** • FIVE BELOW GOES PUBLIC! IPO (*KIDS&G FIVE*)
- 2013** • ANNUAL SALES REACH \$800M!
• 17 STORES OPEN IN TEXAS... (*LI IN ONE DAY*)
- 2014** • JOEL ANDERSON IS NAMED COO TAKING FIVE BELOW TO THE NEXT LEVEL
- 2015** • NEW SHIPCENTER OPENS IN NJ (*275+ MILLION SQUARE FEET!*)
- 2016** • ANNUAL SALES REACH \$1 BILLION!
• E-COMMERCE WEBSITE GOES LIVE
• 500TH STORE OPENS!!
- 2017** • NEW STORE EXPERIENCE LAUNCHES!
• FIVE BELOW ENTERS CALIFORNIA
- 2018** • WOWTOWN, THE NEW HQ IN PHILLY, OPENS! (*HUGE TRUCK HOME!*)
- 2019** • 150 STORES OPEN WITH A TOTAL OF 900 IN 36 STATES!
• NEW SHIPCENTER OPENS IN GA
• NEARLY \$23 MILLION IN DONATIONS RAISED FOR CHARITIES IN PAST 10 YEARS

NOW: On the way to \$2 billion in annual sales, Five Below continues to make it easy to say "yes!" to the newest, coolest stuff so you can "let go & have fun!"

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FIVE Below, Inc. (FIVE)

1 - GROW OUR STORE BASE

PLAN TO COVER THE CONTINENTAL U.S.

2019 states

1st STATE 2002

215 437 900 2,500+

2012 at IPO 2015 YE 2019 YE potential

>23% CAGR

150 NEW STORES!

ABOUT 1/3 OF THE WAY THERE!

we BEL'w

stock study

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FIVE BELOW

- continued focus on densifying existing markets
- largest states planned to be CA, TX, FL, NY and PA

(1) management open court potential estimates in the U.S. based on their party studies, previous estimate was 2,000+

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FIVE Below, Inc. (FIVE)

STRONG BUSINESS MODEL DRIVES SELF-FUNDED GROWTH

CAPEX⁽¹⁾

Year	Stores	Distribution	Corporate/IT Systems & Infrastructure	Total
2014	\$32	\$8	\$21	\$61
2015	\$30	\$6	\$27	\$63
2016	\$45	\$6	\$34	\$85
2017	\$68	\$5	\$30	\$103
2018 ⁽²⁾	\$114	\$32	\$64	\$210

FREE CASH FLOW⁽²⁾

Year	Free Cash Flow
2014	\$29
2015	\$35
2016	\$62
2017	\$100
2018	\$70

Key Strengths:

- modest capital expenditures for stores
- strong free cash flow generation
- debt free
- ample liquidity

dollars in millions

(1) gross capital expenditures, including tenant allowances

(2) operating cash flow less capital expenditures (gross), excluding tenant allowances

(3) 2018 includes portion of Southeast Distribution Center under distribution, and PDS rollout under stores

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STRATEGIC ANALYSIS

INTERNAL

EXTERNAL

STRENGTHS
build; enhance

WEAKNESSES
resolve; reduce

OPPORTUNITIES
exploit; expand

THREATS
avoid; thwart

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we have used Artificial Intelligence in making this page

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FIVE Below, Inc. (FIVE)

- Strengths
- Double-digit growth possibilities for top and bottom line
- Superb Performance in New Markets – Five Below, Inc. has built expertise at entering new markets and making success of them
- Highly successful at **Go To Market strategies** for its products.
- Successful track record of integrating technology
- Product innovation

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FIVE Below, Inc.

Source: Annual Report
DC = Distribution Center

FIVE COMPETITIVE DIFFERENTIATORS

TWEEN & TEEN FOCUS

HANDPICKED, TREND-RIGHT, WOW PRODUCTS

EXTREME VALUE

FUN, ONE-OF-A-KIND SHOPPING EXPERIENCE

DISCIPLINED HIGH GROWTH

LED BY A HIGHLY EXPERIENCED MANAGEMENT TEAM

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FIVE Below, Inc.

Source: Annual Report
DC = Distribution Center

BROAD APPEAL ACROSS INCOMES WITH HIGH DWELL TIME

average HH: \$73,000

\$100,000+ 24%

\$75,000 - \$99,999 17%

\$50,000 - \$74,999 21%

\$30 - \$49,999 38%

<\$30 8%

CUSTOMERS SHOP FREQUENTLY!

SHOP 10X/YEAR

PURCHASE ~60 ITEMS/YEAR

SPEND ~\$150/YEAR

HIGH AVERAGE DWELL TIME: 20 MINUTES

<:10 mins 5%

:10-15 mins 28%

:16-20 mins 30%

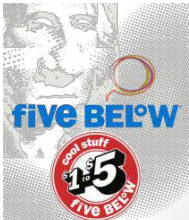
>:20 mins 34%

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Opportunities (FIVE)

- Lower inflation rate – cash flow stability
- New technology provides an opportunity to practice differentiated pricing.
- Lower shipping prices and products
- Stable free cash flow
- Leverage online channel
- Favorable business tax policy



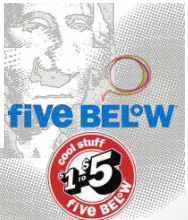
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Opportunities (FIVE)

**TWEEN & TEEN-FOCUSED
WITH BROAD CUSTOMER APPEAL**



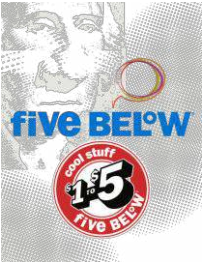
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Weaknesses (FIVE)

- Needs to use cash more efficiently
- High days in inventory
- There are gaps in the product range sold by the company. This lack of choice can give a new competitor a foothold in the market.
- The profitability ratio and Net Contribution % of Five Below, Inc. are below the industry average.
- Innovation needs must be cutting edge



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Threats (FIVE)

- Rising pay level especially movements such as \$15/hour and China tariffs impact profits
- Increasing trend toward isolationism in the American economy
- Intense competition – in past 2 years
- Low quality product



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FIVE Below, Inc.

Source: Annual Report

Set forth below is data for the following groups of products – leisure, fashion and home, and party and snack. The percentage of net sales represented by each product group for each of the last three fiscal years was as follows:

	Percentage of Net Sales		
	2018	2017	2016
Leisure	50.9%	50.1%	50.0%
Fashion and home	30.9%	31.6%	31.2%
Party and snack	18.2%	18.3%	18.8%
Total	100.0%	100.0%	100.0%

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FIVE Below, Inc.

Source: Annual Report
DC = Distribution Center

4 - SCALE SYSTEMS & INFRASTRUCTURE



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Poll Question #1

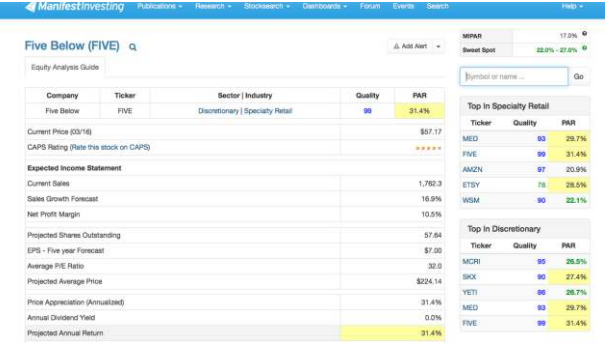
At this point in the presentation, I have this feeling about investing in FIVE:

- I have no interest in this company
- I have no interest in retail companies
- Has interesting prospects
- Will do further research

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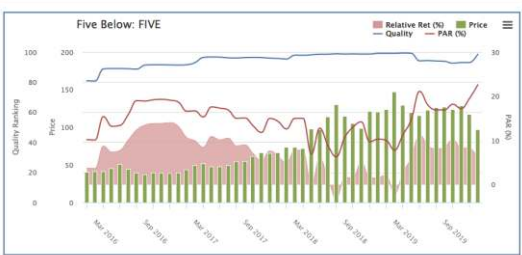


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FIVE Below, Inc.

Source: Manifest Investing data as of 2/21/2020



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FIVE Below, Inc.

Source: MorningStar (3/13/20)

Growth (3 year annualized) as of October 30, 2019				
Revenue %	25.3			
Operating Income %	26.29			
Net Income %	37.41			
Diluted EPS %	36.32			
TTM				
Revenue	1.75	1.59	1.28	1
Operating Income (\$B)	0.19	0.19	0.16	0.11
Net Income (\$B)	0.35	0.35	0.1	0.07
Diluted EPS	2.74	2.66	1.84	1.3
Normalized diluted EPS	2.74	2.66	1.84	1.3

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FIVE Below, Inc.

Source: Yahoo Finance (3/13/20)

Growth Estimates				
Current Qtr.	FIVE	22.00%		
Next Qtr.		-6.50%		
Current Year		16.20%		
Next Year		17.20%		
Next 5 Years (per annum)		17.49%		
Past 5 Years (per annum)		40.24%		
EPS Trends				
Current estimate	1.94	0.43	3.09	3.62
7 days ago	1.94	0.43	3.09	3.62
30 days ago	1.94	0.43	3.09	3.64
60 Days ago	1.98	0.45	3.14	3.72
90 Days ago	2.02	0.45	3.17	3.78

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FIVE Below, Inc.

Source: Finviz

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43	Finviz (3/13/20)	P/E	27.99 EPS (ttm)	2.74
44		Forward P/E	21.14 EPS next Y	3.62
45		PEG	1.6 EPS next Q	1.94
46		P/S	2.38 EPS this Y	45.10%
47		P/B	6.61 EPS next Y	17.18%
48		P/C	31.88 EPS next 5Y	17.49%
49		P/FCF	EPS past 5Y	35.20%
50		Quick Ratio	0.5 Sales past 5Y	23.80%
51		Current Ratio	1.6 Sales Q/Q	20.70%
52		Debt/Eq	0 EPS Q/Q	-24.30%
53		LT Debt/Eq	0 Earnings	Mar 18 AMC
54		SMA20	-25.49% SMA50	-31.41%
55				

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Questions



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Poll Question #2

What do you estimate as FIVE's Forecast Sales Growth Rate?

- 16.9% per Manifest Investing
- 17.5% per Yahoo Finance and Finviz
- 12.0% to be more conservative than the historical trend
- 19.5% per Analysts 2 year estimate

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Poll Question #3

What do you estimate as FIVE's forecast EPS growth rate?

- 22.0% per yahoo finance current quarter
- 17.5% per Finviz
- 23.3% per Finviz past 5 years sales
- 12.0% per sales forecast

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Poll Question #4

What do you estimate as FIVE's future High P/E?

- 35 average price/earnings ratio
- 45 last five years average high p/e
- 20 judgmentally lowered above p/e numbers to be conservative

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Poll Question #5

What do you estimate as FIVE's low p/e?

- 26 last five year's low avg p/e
- 36 last ten year's avg low p/e
- 20 judgmentally lower than average low p/e

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Poll Question #6

What are your interests in FIVE for your portfolio?

- Buy
- Hold
- Sell
- Keep this company on my watch list

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FIVE

- 4Q Earnings will be announced after market tomorrow Wednesday, March 18th.
- Thank you for your attention, Back to you Carolyn
- The End

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