

Five Below Inc.

Mgmt. meeting takeaways: Store growth expansion on-track

Reiterate Rating: BUY | PO: 225.00 USD | Price: 191.20 USD

Strong holiday performance across categories

We hosted meetings with Five Below (FIVE) CEO Joel Anderson, COO Ken Bull, and CFO Kristy Chipman at the ICR Conference in Orlando, FL on Monday, Jan 8th. In conjunction with the conference, FIVE issued a press release announcing holiday period (10/29-1/6) comps +3.6% and the expectation that 4Q will be near the high end of previously provided guidance of \$1.32-1.35bn sales on 3% comps (2-3% prior). FIVE reiterated its 4Q EPS outlook. FIVE opened 204 net new stores in 2023 and converted 400+ stores to the Five Beyond format. FIVE was pleased with its holiday performance and saw broad-based strength across most worlds and continued strong results from converted stores. Food and beverage, candy, health and beauty, and seasonal outperformed.

Long-term algo reset largely as expected

FIVE provided an update on its long-term targets. It is on track to triple its store count by 2030. FIVE opened >1,000 stores over the past seven years and will open around 2,000 stores over the next seven years to reach 3,500+ stores in 2030. Three store expansion focuses include: 1) Densifying existing markets, 2) A continued push into urban markets, and 3) Expansion into more semi-rural areas. Given the impact of 2021, the lapping of stimulus, and the macro headwinds from higher inflation, FIVE pushed back the time to double its sales by a year from 2025 to 2026. It now expects to reach \$5.7bn sales in 2026 with 2-4% average annual comps for 2024-2026. FIVE expects 2024 to be on the lower end of this range due to five fewer holiday shopping days. EPS is expected to be \$10 in 2026 driven by the new store pipeline, supply chain efficiencies, inventory optimization, and fixed cost leverage. Mgmt. expects 20-40bp of average annual operating margin expansion with 2024 on the lower end of this range.

Lowering PO on implied outlook for 2024

Reflecting updated guidance, we're lowering our '23/24/25E EPS by 0.6/3.1/3.8% given the potential for a softer 2024 than we had previously modeled. We're also lowering our PO from \$233 to \$225 still based on 35x '24E EPS. We reiterate our Buy rating given FIVE's best-in-class execution, strong value proposition, and long runway for store growth. Although 2024, will be slightly below FIVE's new long-term algorithm, we remain bullish on the company's long-term growth which should be primarily driven by new stores.

Estimates (Jan) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.95	4.69	5.53	6.44	7.65
EPS Change (YoY)	125.0%	-5.3%	17.9%	16.5%	18.8%
Consensus EPS (Bloomberg)			5.52	6.62	8.01
DPS	0	0	0	0	0
Valuation (Jan)					
P/E	38.6x	40.8x	34.6x	29.7x	25.0x
EV / EBITDA*	24.9x	25.7x	22.3x	19.1x	16.0x
Free Cash Flow Yield*	0.4%	0.6%	0%	0.6%	0.7%

* For full definitions of *IQmethod*SM measures, see page 4.

09 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	233.00	225.00
2024E EPS	5.56	5.53
2025E EPS	6.65	6.44
2026E EPS	7.95	7.65

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Stock Data

Price	191.20 USD
Price Objective	225.00 USD
Date Established	9-Jan-2024
Investment Opinion	B-1-9
52-Week Range	144.57 USD - 220.19 USD
Mrkt Val (mn) / Shares Out (mn)	10,553 USD / 55.2
Free Float	97.4%
Average Daily Value (mn)	161.59 USD
BofA Ticker / Exchange	FIVE / NAS
Bloomberg / Reuters	FIVE US / FIVE.OQ
ROE (2024E)	18.0%
Net Dbt to Eqty (Jan-2023A)	-21.0%
ESGMeter TM	Medium

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Timestamp: 09 January 2024 05:00AM EST

iQprofileSM Five Below Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	13.4%	10.1%	10.4%	11.0%	11.7%
Return on Equity	27.9%	19.5%	18.0%	17.8%	17.9%
Operating Margin	13.3%	11.2%	11.2%	11.4%	11.8%
Free Cash Flow	40	63	4	65	79

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.2x	1.1x	1.1x	1.1x
Asset Replacement Ratio	3.4x	2.4x	2.7x	2.4x	2.4x
Tax Rate	24.0%	24.7%	25.4%	25.0%	25.0%
Net Debt-to-Equity Ratio	-5.7%	-21.0%	-17.9%	-18.0%	-18.2%
Interest Cover	27.8x	NA	NA	NA	NA

Income Statement Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,848	3,076	3,563	4,098	4,753
% Change	45.2%	8.0%	15.8%	15.0%	16.0%
Gross Profit	1,030	1,095	1,283	1,480	1,721
% Change	58.0%	6.3%	17.1%	15.3%	16.3%
EBITDA	465	451	520	606	722
% Change	107.3%	-3.0%	15.4%	16.6%	19.1%
Net Interest & Other Income	(13)	2	15	15	15
Net Income (Adjusted)	279	262	308	360	430
% Change	126.0%	-6.2%	17.6%	17.1%	19.5%

Free Cash Flow Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	279	262	308	360	430
Depreciation & Amortization	85	106	122	141	163
Change in Working Capital	(69)	(99)	(119)	(133)	(163)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	34	47	27	31	36
Capital Expenditure	(288)	(252)	(335)	(335)	(389)
Free Cash Flow	40	63	4	65	79
% Change	-76.0%	58.4%	-94.3%	NM	21.7%
Share / Issue Repurchase	(66)	(43)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	65	332	336	401	480
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	840	734	835	947	1,085
Property, Plant & Equipment	777	926	1,138	1,333	1,558
Other Non-Current Assets	1,198	1,333	1,333	1,333	1,333
Total Assets	2,880	3,325	3,642	4,013	4,456
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	587	404	428	456	490
Long-Term Debt	2	4	4	4	4
Other Non-Current Liabilities	1,172	1,356	1,356	1,356	1,356
Total Liabilities	1,760	1,764	1,789	1,816	1,850
Total Equity	1,120	1,561	1,853	2,197	2,606
Total Equity & Liabilities	2,880	3,325	3,642	4,013	4,456

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Retailing-Specialty

Company Description

Five Below is a rapidly growing specialty value retailer offering a broad range of trend-right, high-quality merchandise targeted at the tween and teen customer. FIVE offers a dynamic, edited assortment of exciting products, priced at \$5 and below, including select brands and licensed merchandise across eight worlds: Style, Room, Sports, Tech, Create, Party, Candy and Now.

Investment Rationale

Our rating on Five Below (FIVE) is Buy. We believe FIVE's extreme value offering should help traffic and comps recover. FIVE's strategy of continuously reinvesting in its products to improve its offering should drive low-single-digit comp growth in a normalized environment.

Stock Data

Average Daily Volume

845,142

Quarterly Earnings Estimates

	2023	2024
Q1	0.59A	0.67A
Q2	0.74A	0.84A
Q3	0.29A	0.26E
Q4	3.07A	3.77E

Price objective basis & risk

Five Below Inc. (FIVE)

Our price objective is \$225, based on 35x our F2024E EPS estimate, due to normalized consistent low-single-digit comp growth and 17% average square footage growth annually. This is comparable to a peer group of high growth consumer discretionary companies given our estimate of FIVE's strong sales and EPS growth outlook.

Downside risks are inflationary cost pressures, ability to stay on trend and maintain clean inventory, limited ecommerce potential, minimal long term merchandise margin expansion due to product investment strategy and comp influence from crazes can create challenging comparisons.

Analyst Certification

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US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Arhaus, Inc	ARHS	ARHS US	Jason Haas, CFA
	Boot Barn	BOOT	BOOT US	Jason Haas, CFA
	Driven Brands	DRVN	DRVN US	Jason Haas, CFA
	Five Below Inc.	FIVE	FIVE US	Jason Haas, CFA
	Floor and Decor Holdings, Inc.	FND	FND US	Elizabeth L Suzuki
	Genuine Parts	GPC	GPC US	Jason Haas, CFA
	Leslie's	LESL	LESL US	Elizabeth L Suzuki
	Lowe's Companies, Inc.	LOW	LOW US	Elizabeth L Suzuki
	Mattel	MAT	MAT US	Jason Haas, CFA
	Mister Car Wash	MCW	MCW US	Jason Haas, CFA
	Ollie's	OLLI	OLLI US	Jason Haas, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Jason Haas, CFA
	Petco	WOOF	WOOF US	Jason Haas, CFA
	PROG Holdings Inc	PRG	PRG US	Jason Haas, CFA
	Rollins Inc.	ROL	ROL US	Jason Haas, CFA
	Tempur Sealy International Inc.	TPX	TPX US	Jason Haas, CFA
	The Home Depot, Inc.	HD	HD US	Elizabeth L Suzuki
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
NEUTRAL				
	AutoZone Inc.	AZO	AZO US	Jason Haas, CFA
	Hasbro	HAS	HAS US	Jason Haas, CFA
	Sonos, Inc.	SONO	SONO US	Jason Haas, CFA
	Williams-Sonoma	WSM	WSM US	Jason Haas, CFA
UNDERPERFORM				
	Advance Auto Parts, Inc.	AAP	AAP US	Jason Haas, CFA
	Best Buy Co., Inc.	BBY	BBY US	Elizabeth L Suzuki
	Snap-on	SNA	SNA US	Elizabeth L Suzuki
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA
	Whirlpool	WHR	WHR US	Jason Haas, CFA



IQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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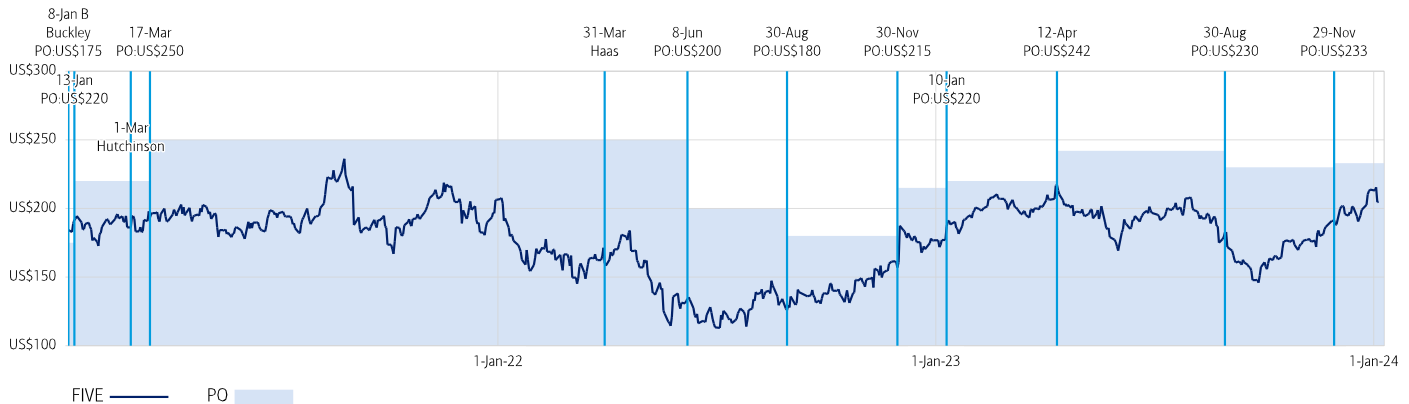
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Five Below (FIVE) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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