

Five Below, Inc.

NASDAQ:FIVE

Analyst: Cindy Missaoui

Sector: Consumer Disc.

BUY

Price Target: \$44.49

Key Statistics as of 10/27/2016

Market Price:	\$36.33
Industry:	Specialty Retail
Market Cap:	\$1.9B
52-Week Range:	\$26.95-52.70
Beta:	0.89
NOPAT Margin:	11%.
ROIC:	14.7%
ROE:	22.9%

Catalysts:

- Increase store base to more than 2,000 locations. (1+ years)
- Earnings release – November 30th
- Above average revenue and earnings per share growth (1+ years.)

Company Description:

Five Below Inc. operates as a specialty value retailer. The company, created in 2002 by David Schlessinger and Thomas G. Vellios is headquartered in Philadelphia, PA. The company offers a large variety of products under \$5 including sporting goods, games, fashion, accessories, jewelry, bath and body, candy, snacks, room decor, video games accessories, books, and DVD for pre-teens and teens. Five Below is one of the fastest growing retailers and serves its customers through more than 500 stores throughout the United States.



Thesis

Five Below Inc. is one of the fastest growing retailers in the United States; the company's business model will continue to offer profitable and valuable opportunity. Though US consumer spending was low, Five Below Inc. did not lose sales and has always generated revenue growth year over year.

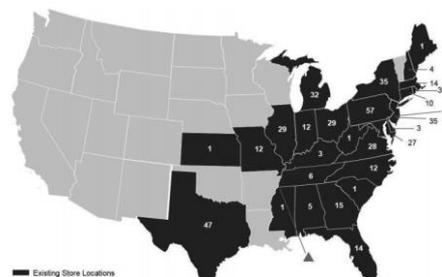


Besides, Five Below Inc. financial performance is a key driver of their success. In fact, Five Below success is principally based on expansion and revenue growth, which is achievable due to high level of financial flexibility. Since 2013, the numbers of stores within the United States doubled while strengthening its leading position in existing market and implementing in the same time its shopping experience in new market. Finally, the company's marketing strategy towards the development of technological tools, such as e-commerce, TV advertising, and social media, will add value to the company as it will increase market visibility and so attract a broader range of customers.

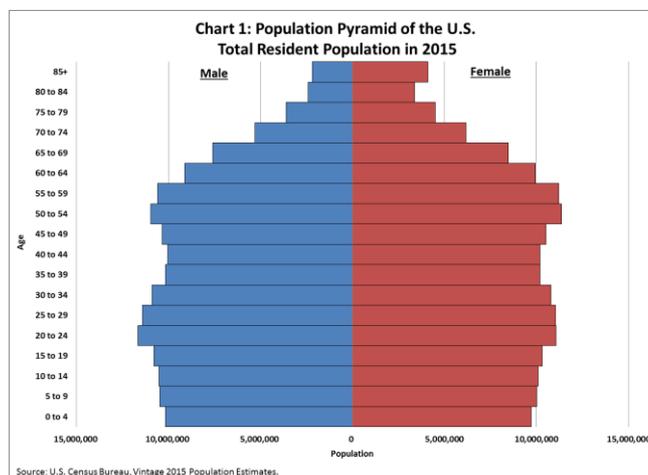
Analysts estimate the stock to reach \$50 - I recommend that we buy Five Below Inc. stock which is currently undervalued. I expect the price to rise in the future around \$45 - \$50.

Growth Strategy

Five Below success can be explained by its expansion strategy in the United States; from 244 stores in 2013 to more than 2000 over time. The strategic goal of FIVE is to expand into new markets, such as California in 2017, and to expand the store densification in existing markets.



By doing so, the company enhances brand awareness and achieves operational efficiencies. In fact, Five Below Inc. expands its customer base and promotes brand awareness through newspaper, local media and social media. In addition to that, because Five Below principal customers are teens and mid-teens the company decided to put in place a multi-channel marketing strategy in order to capture a wide range of targeted audience. As a matter of fact, Five Below started to strengthen its presence on social media and TV advertisement by increasing its digital marketing strategy expense up to 25%. The company also invests tremendous amounts for its e-commerce brand that helps the company to target new customers and increase its in-store experience. Finally, Five Below Inc. market opportunity is significant even if it only focuses on teens and mid-teens. In fact, according to the United States Census, 23% of the US population were under 18 years old as of 2015, which represents an important opportunity for the company which only offers products under \$5. As reported in the 10-K, in FY2015 sales increased by 23% and earnings per share grew by 50% its most important gain in three years. Through this growth strategy Five Below succeeded to become unavoidable in its targeted market.



Services and Product Mix

Five Below stores provide a large variety of products (from leisure, fashion and home, to party and snacks...) at a low price. By doing so, Five Below has the capacity to increase its competitive advantage by attracting a large variety of customers. Five Below offers a different shopping experience and takes advantage over its competitors which mainly attract adults only. Besides, Five Below Inc. fresh and attractive mix products make it easier to increase sales and growth forward. In fact, the company succeeds to adapt its products to current trends and offers in-demand products given news, events, and trends.

On a strategic and cost effective point of view, the company's ability to provide services and product mix, allow then to reduce significant risks such as inflation or products costs. In fact, as reported in the annual report, Five Below works with 800 different suppliers, with no single vendors representing more than 7% of the purchases in fiscal year 2015, which gives leverage to the company as they do not want to depend on exclusive supplier. They do have the possibility to avoid important risk factors by diversifying their products sourcing.

Aggressive Strategy

Five Below main competitors are Dollar Tree Inc. and Tractor Supply Company which are the pioneers on the discount stores. At a first glance, Five Below is much smaller than its peers, but its fast-growing strategy allows the company to become more popular and attractive than Dollar Tree Inc. and Tractor Supply Company. Because the company succeeds to capitalize on its value-focused offering, it rapidly becomes attractive for customers and for investors. In fact, 14 years after the first store opening in Wayne, PA, the company announced on August 2016 the opening of its 500th stores. Its rapid-growth allows the company to outperform its peers, and proves that it has the possibility to create more growth in the future.

	FY 2013	FY 2014	FY 2015	FY 2016
Number of Locations	244	304	366	437
Number of Locations Opened	60	62	71	85
Number of Locations Closed	0	0	0	0

Indeed, on the announcement date, the stock price soared 4.5% from \$48 to \$51. Even though the competition on the retail industry is fierce, Five Below succeeded, throughout its strategy and financial results to differentiate itself from others, and attract investors as they believe in the company's capacity of growth.



Finally, when looking at the industry revenue, Five Below is ranked 11th with a FY Revenue of \$835.95M right after Wal-Mart, Target, and Dollar General. Globally, Five Below business model leads to strong growth, but also strong financial performance and efficiency.

Financials

Five Below Inc. strong financial performance year over year can be seen in multiple areas. First, Five Below revenues grew by 117% from 2013 to 2016 (\$418.8 to \$908.9), and estimates for 2017 and 2018 are respectively \$1,007 and \$1,223.1. Second, Five Below has a healthy EBITA Margin of 11.1% while the competitors' average is 9.0%.

	EBITA Margin	
	History	LFY
Five	10.7%	11.1%
Competitors	10.4%	9.0%

When analyzing the performance of the ROIC ratio, which is more than twice bigger than competitors, Five Below is efficiently generating returns above its competitors, meaning that the existing and new stores opened add value and have been successful and profitable. As explained in the 10-K, new stores have achieved average payback period of less than one year, which reinforced even more the company's expansion desire, strength and growth capacity.

	ROIC			ROIC /WACC	
	History	LFY		History	LFY
Five	32.0%	30.5%	Five	2.66	3.30
Competitors	18.1%	12.0%	Competitors	0.67	1.38

Five Below type of management can be seen as conservative as the company is debt free. Five Below used to fund capital expenditure with cash hand while generating positive free cash flow. By using no debt Five Below is also less risky than its competitors.

	Capitalization (Debt/Equity)	
	History	LFY
Five	0.00	-
Competitors	0.10	0.17

Being debt-free in these economic conditions, allows Five Below to increase security, have a better financial health, and get rid of interest expenses.

As a matter of fact, Five Below stock price is likely to rise in the future. In fact, its growth expansion will continue on the short term and long term, as the company plans to open 85 new stores by the end of 2017, which would boost sales, add value to the company and so increase its market price. Finally, its financial efficiency and financial flexibility ensure the company's success and profitable growth on the long-term.

Porters Five Forces

Bargaining Power of Suppliers: High – 63

Because Five Below belongs to the specialty retail industry, it highly depends on suppliers. However, the company's policy for suppliers is quite different from others, as they do not want to depend on unique and exclusive suppliers so that they can have leverage.

Bargaining Power of Customers: Low – 36

When it comes to price, customers does not have a lot of bargaining power. However, they have the power to buy items from competitors if prices do not please them. By offering pricing discounts, customers' are highly attracted by Five Below products.

Intensity of Existing Rivalry: Medium - 50

Five Below mains competitors are Dollar Tree, General Dollar and Tractor Supply Company. It succeeds to differentiate itself from its peers through shopping experience, products mix, and marketing strategy. Even if the company is one of the newest in the discount store market, it can be seen as a retail winner with a strong competitive advantage.

Threat of Substitutes: Medium – 58

On the retail industry, customers have access to a diversified choice of substitutes. One of the major issue associated with goods substitutions is the fact that customers can choose to purchase the substitutes instead of the industry's product, which can drive the price and so profitability down.

Threat of New Competition: Medium - 58

Five Below faces many competitors on the market for goods and services. However, its business model and strategy helped the company to become unavoidable in the discount chain market.

Important Dates and Catalysts

On September 2016, the company announced first stores opening in Minnesota along with Brooklyn Center and Osseo; in 2017 the company plans to open more than 80 stores. Moreover, the company has announced Q3 2017 Earnings call on November 30th.

Summary

Five Below. Inc has been growing during the last six years. Regarding its current situation, a potential future growth is more than predictable. Several opportunities such as stores expansion, product mix, and new shopping experience will help the company to achieve strong revenue and profitable growth on the short and long term. The company knows how to create value and its ambition to conquered the market will help the company going forward towards that path while improving the process.

Five Below, Inc. (five)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Cindy Missaoui
10/28/2016

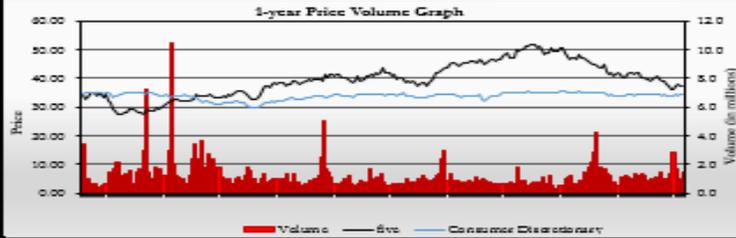
Current Price: \$36.33
Dividend Yield: 0.0%

\$36.33
0.0%

Intrinsic Value
Target Price

\$39.82
\$44.43

Target 1 year Return: 22.46%
Probability of Price Increase: 94%

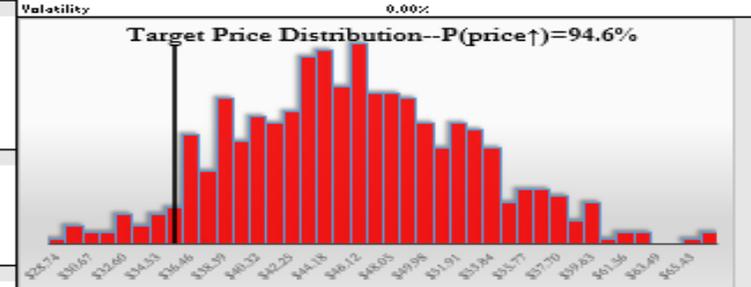


Description	
Five Below, Inc. operator of a specialty value retailer in the United States.	
General Information	
Sector	Consumer Discretionary
Industry	Specialty Retail
Last Guidance	November 3, 2015
Next earnings date	December 2, 2016
Estimated Country Risk Premium	6.25%
Effective Tax rate	40%
Effective Operating Tax rate	40%

Market Data	
Market Capitalization	\$1,993.41
Daily volume (mil)	0.93
Shares outstanding (mil)	54.87
Diluted shares outstanding (mil)	54.94
% shares held by institutions	113%
% shares held by investment Managers	100%
% shares held by hedge funds	10%
% shares held by insiders	2.54%
Short Interest	17.91%
Days to cover short interest	8.71
52 week high	\$52.70
52 week low	\$26.95
Levered Beta	0.89
Volatility	0.00%

Quarter ending	Part Earning Surprise Revenue	EBITDA
9/30/2015	-2.57%	-7.34%
10/31/2015	0.05%	0.71%
1/30/2016	-0.23%	-0.34%
4/30/2016	0.90%	8.88%
7/30/2016	-0.48%	0.31%
Mean	-0.47%	0.44%
Standard error	0.6%	2.6%

Peers	
Dollar General Corporation	
Dollar Tree, Inc.	
Tractor Supply Company	



Management	Partitions	Total compensation grant	Total return to shareholders
Vallier, Thamar	Co-Founder and Executive Cha	-100% per annum over 4y	NM
Anderson, Joel	Chief Executive Officer, Pre	-100% per annum over 4y	5.73% per annum over 1y
Bull, Kenneth	Chief Financial Officer, Sec	-100% per annum over 4y	NM
Spector, Eric	Chief Administrative Officer	-100% per annum over 4y	5.73% per annum over 1y
Ramanka, Michael	Executive Vice President of	-100% per annum over 4y	5.73% per annum over 1y
Rasadina, Eugene	Senior Vice President of Sup	NM	NM

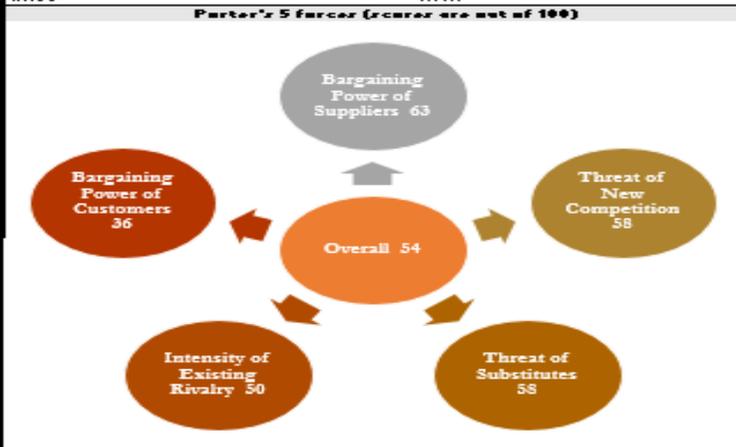
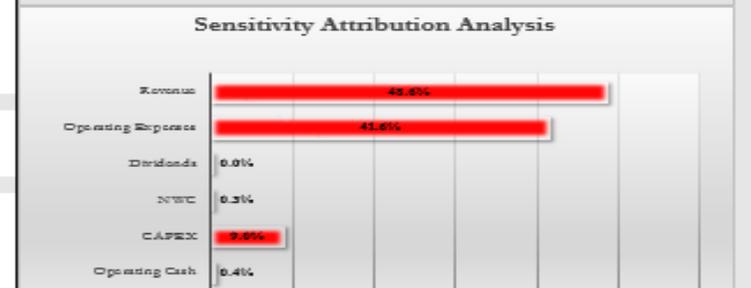
Profitability	five (LTM)	five (5 years historical over industry (LTM))
ROIC	14.7%	20.87%
NOPAT Margin	11%	10.45%
Revenue/Inverted Capital	1.40	2.00
ROE	22.9%	2.21%
Adjusted net margin	9%	9.15%
Revenue/Adjusted Book Value	2.50	0.24

Invested Funds	five (LTM)	five (5 years historical over industry (LTM))
Total Cash/Total Capital	11.9%	13.8%
Estimated Operating Cash/Total Capital	8.3%	10.4%
Non-cash working Capital/Total Capital	10.2%	19%
Invested Capital/Total Capital	96.4%	96.6%

Capital Structure	five (LTM)	five (5 years historical over industry (LTM))
Total Debt/Common Equity (LTM)	0.15	0.10
Cost of Existing Debt	6.49%	11.52%
Estimated Cost of new Borrowing	6.08%	10.94%
CGFS Risk Rating	D	F
Unlevered Beta (LTM)	0.80	1.46
WACC	8.76%	12.53%

Period	Revenue growth	ROIC/WACC
Base Year	23.2%	1.68
7/30/2017	21.2%	1.77
7/30/2018	20.8%	2.01
7/30/2019	21.7%	1.95
7/30/2020	22.4%	1.99
7/30/2021	19.8%	1.96
7/30/2022	17.2%	1.89
7/30/2023	14.5%	1.81
7/30/2024	11.9%	1.73
7/30/2025	9.3%	1.65
7/30/2026	6.7%	1.57
Continuing Period	4.1%	1.49

Period	Invested Capital	Net Claim	Price per share
Base Year	\$174.55	\$402.05	\$39.60
7/30/2017	\$291.90	\$353.35	\$44.02
7/30/2018	\$382.42	\$371.69	\$49.07
7/30/2019	\$456.24	\$355.67	\$54.67
7/30/2020	\$650.62	\$243.99	\$60.86
7/30/2021	\$779.14	\$328.98	\$67.70
7/30/2022	\$865.24	\$295.25	\$75.24
7/30/2023	\$1,065.81	\$202.46	\$83.48
7/30/2024	\$1,265.27	\$61.48	\$92.60
7/30/2025	\$1,513.90	-\$127.03	\$102.22
7/30/2026	\$1,804.52	-\$380.94	\$112.48
Continuing Period			



Period	Revenue growth	ROIC/WACC
Base Year	23.2%	1.68
7/30/2017	21.2%	1.77
7/30/2018	20.8%	2.01
7/30/2019	21.7%	1.95
7/30/2020	22.4%	1.99
7/30/2021	19.8%	1.96
7/30/2022	17.2%	1.89
7/30/2023	14.5%	1.81
7/30/2024	11.9%	1.73
7/30/2025	9.3%	1.65
7/30/2026	6.7%	1.57
Continuing Period	4.1%	1.49

Period	Invested Capital	Net Claim	Price per share
Base Year	\$174.55	\$402.05	\$39.60
7/30/2017	\$291.90	\$353.35	\$44.02
7/30/2018	\$382.42	\$371.69	\$49.07
7/30/2019	\$456.24	\$355.67	\$54.67
7/30/2020	\$650.62	\$243.99	\$60.86
7/30/2021	\$779.14	\$328.98	\$67.70
7/30/2022	\$865.24	\$295.25	\$75.24
7/30/2023	\$1,065.81	\$202.46	\$83.48
7/30/2024	\$1,265.27	\$61.48	\$92.60
7/30/2025	\$1,513.90	-\$127.03	\$102.22
7/30/2026	\$1,804.52	-\$380.94	\$112.48
Continuing Period			