



# UConn Student Managed Fund

## Five Below Inc. (NASDAQ: FIVE)

March 1st, 2022

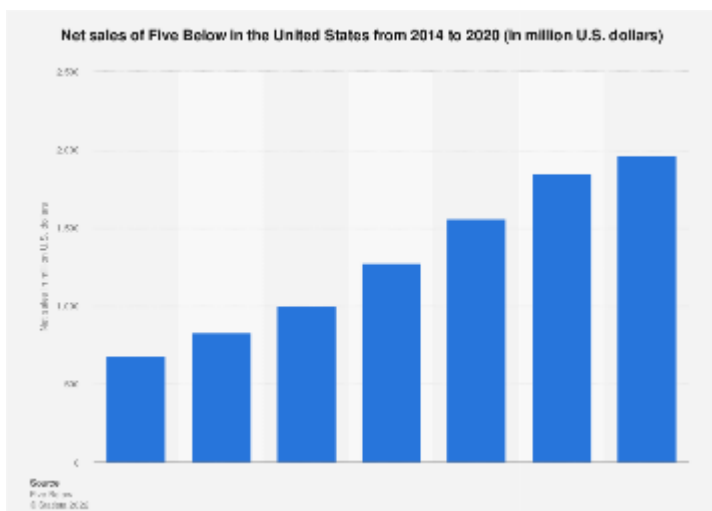
Target Price: \$234.26  
Current Price: \$166.56  
Stop loss: \$124.92  
52 Week High/Low: \$237.86/\$147.15

Market Cap (\$B): \$9.67B  
Dividend Yield: 0.00%  
Beta: 1.41  
ROE: 25.40%

P/E Ratio (TTM): 36.14  
EV/EBITDA: 24.06  
Operating Margin: 12.70%  
Net Profit Margin: 9.20%

## Company Overview

Five Below is a high-growth value retailer that specializes in low cost, high value products for teens, young adults, and tweens. Most items in their stores are priced between \$1 and \$5, with a small segment of extreme value items priced beyond \$5. The company was founded in 2002, in Pennsylvania, and currently operates 1,100 locations in forty states. It is most correlated with the consumer discretionary sector, with a product mix focusing on leisure, fashion, home, party, and snack products, with a recent expansion of the product line including a few staple products such as cleaning supplies and personal hygiene.



## Industry Outlook

The discount retailing industry is set to benefit from market conditions arising out of the end of the COVID-19 pandemic. Inflation created by surplus of money in the market has created a more cost-conscious consumer. Discount retailers offer a better value proposition for their customers, and the healthy margins that Five Below maintains allows them to be the last to raise prices. In addition, there is a general expectation of increased discretionary spend from consumers, as the last vestiges of COVID ending allow the behavior of consumers to mean revert.

## Investment Thesis

- ✓ Broad appeal across income levels
- ✓ Consistent store openings driving strong revenue growth
- ✓ Potential for margin expansion as growth increases cost leverage
- ✓ Stores pay for themselves in less than one year
- ✓ Store performance not region reliant
- ✓ Long term growth may benefit from international expansion, and e-commerce
- ✓ Strong investment in distribution infrastructure

## Investment Risks

- Growth stocks underperformed in recent months
- E-Commerce segment is currently operating out of a select few warehouses causing higher delivery costs vs. competitors
- Business model not currently tested internationally
- Inflation may eat away at margins

## Financial Performance

Breakdown	TTM	1/31/2021	1/31/2020	1/31/2019
> Total Revenue	2,710,536	1,962,137	1,846,730	1,559,563
Cost of Revenue	1,736,056	1,309,807	1,172,764	994,478
Gross Profit	974,480	652,330	673,966	565,085
> Operating Expense	612,568	497,527	456,682	377,901
Operating Income	361,912	154,803	217,284	187,184
> Net Non Operating Interest Inc...	-13,391	-1,736	4,285	4,623
Pretax Income	348,521	153,067	221,569	191,807
Tax Provision	85,970	29,706	46,513	42,162
> Net Income Common Stockhold...	262,551	123,361	175,056	149,645

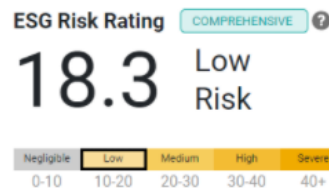
## Valuation Assumptions & Key Financials

We recommend a BUY rate for FIVE based on a target price of \$234.26 per share. This target price reflects a 40.66% margin of safety based on its closing price of \$166.56 on February 25th, 2022. We calculated WACC as 7.65%, assuming a terminal growth rate of 5% and an 18.00x exit EV/EBITDA.

In Millions of USD 12 Months Ending	Projection Period											
	2015 1/30/2016	2016 1/28/2017	2017 2/3/2018	2018 2/2/2019	2019 2/1/2020	2020 1/30/2021	2021 1/31/2022	2022 1/31/2023	2023 1/31/2024	2024 1/31/2025	2025 1/31/2026	2026 1/31/2027
<b>Revenue</b>	832.00	1,000.40	1,278.20	1,559.60	1,846.70	1,962.10	2,899.392	3,464.36	4,139.49	4,946.24	5,852.18	6,924.20
% Growth		20.24%	27.77%	22.02%	18.41%	6.25%	47.77%	19.49%	19.49%	19.49%	18.32%	18.32%
- Cost of Goods Sold	540.00	643.40	814.80	994.50	1,172.80	1,309.80	1,885.75	2,205.06	2,630.64	3,138.39	3,710.28	4,386.48
% of Revenue	64.90%	64.31%	63.75%	63.77%	63.51%	66.76%	63.77%	63.65%	63.55%	63.45%	63.40%	63.35%
<b>Gross Profit</b>	<b>292.00</b>	<b>357.00</b>	<b>463.40</b>	<b>565.10</b>	<b>673.90</b>	<b>652.30</b>	<b>1,013.64</b>	<b>1,259.29</b>	<b>1,508.84</b>	<b>1,807.85</b>	<b>2,141.90</b>	<b>2,537.72</b>
- Operating Expenses	199.00	243.10	306.00	377.90	456.70	497.50	650.23	798.88	954.57	1,122.80	1,322.59	1,564.87
% of Revenue	23.92%	24.30%	23.94%	24.23%	24.73%	25.36%	22.74%	23.06%	23.06%	22.70%	22.60%	22.60%
<b>EBIT</b>	<b>93.00</b>	<b>113.90</b>	<b>157.40</b>	<b>187.20</b>	<b>217.20</b>	<b>154.80</b>	<b>363.41</b>	<b>460.41</b>	<b>554.28</b>	<b>685.05</b>	<b>819.31</b>	<b>972.85</b>
- Tax Expense	35.00	42.40	56.40	42.20	46.50	29.70	78.94	89.37	107.59	132.97	159.03	188.83
% Effective Rate	37.63%	37.23%	35.83%	22.54%	21.41%	19.19%	19.41%	19.41%	19.41%	19.41%	19.41%	19.41%
<b>EBIAT</b>	<b>58.00</b>	<b>71.50</b>	<b>101.00</b>	<b>145.00</b>	<b>170.70</b>	<b>125.10</b>	<b>284.47</b>	<b>371.05</b>	<b>446.69</b>	<b>552.09</b>	<b>660.28</b>	<b>784.02</b>
Plus Depreciation	22.20	26.60	33.20	41.50	55.00	69.30	92.30	98.73	117.98	140.97	166.79	197.34
% of Sales	2.67%	2.66%	2.60%	2.66%	2.98%	3.53%	2.85%	2.85%	2.85%	2.85%	2.85%	2.85%
Less Capex	53.10	44.80	67.80	113.70	212.30	200.20	319.65	278.04	332.22	396.97	469.67	555.71
% of Sales	6%	4%	5%	7%	11%	10%	11%	8.03%	8.03%	8.03%	8.03%	8.03%
Less Change in NWC	(2.00)	6.00	1.00	(18.00)	111.00	(110.00)	(77.21)	(14.72)	(17.59)	(21.02)	(24.87)	(29.43)
% of Sales	0%	1%	0%	-1%	6%	-6%	-3%	0%	0%	0%	0%	0%
<b>FCF</b>	<b>29.10</b>	<b>47.30</b>	<b>65.40</b>	<b>90.80</b>	<b>(97.60)</b>	<b>104.20</b>	<b>134.32</b>	<b>206.47</b>	<b>250.04</b>	<b>317.11</b>	<b>382.26</b>	<b>455.08</b>
<b>EBITDA</b>	<b>115.20</b>	<b>140.50</b>	<b>190.60</b>	<b>228.70</b>	<b>272.20</b>	<b>224.10</b>	<b>455.71</b>	<b>559.15</b>	<b>672.25</b>	<b>826.02</b>	<b>986.09</b>	<b>1,170.19</b>

## ESG

Five Below is ranked in the middle of improved its environmental, and compares well against its peers in statistics with regards to ESG.



## Ranking

Industry Group (1st = lowest risk)  
Retailing **229** out of 448

Universe  
Global Universe **2601** out of 14530

## Considerations

other retailers on an ESG basis. It has governance scores recently and those metrics. It has no worrying