

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 10-Q

(mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 5, 2018.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number: 001-35600

Five Below, Inc.

(Exact name of Registrant as Specified in its Charter)

Pennsylvania
(State or Other Jurisdiction of
Incorporation or Organization)

75-3000378
(I.R.S. Employer
Identification No.)

701 Market Street, Suite 300
Philadelphia, PA
(Address of Principal Executive Offices)

19106
(Zip Code)

(215) 546-7909
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the registrant's common stock, \$0.01 par value, outstanding as of June 6, 2018 was 55,630,133.

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PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

FIVE BELOW, INC.
 Consolidated Balance Sheets
 (Unaudited)
 (in thousands, except share and per share data)

	May 5, 2018	February 3, 2018	April 29, 2017
Assets			
Current assets:			
Cash and cash equivalents	\$ 84,399	\$ 112,669	\$ 65,237
Short-term investment securities	189,804	131,958	113,775
Inventories	215,376	187,037	180,002
Prepaid income taxes	2,168	2,264	1,243
Prepaid expenses and other current assets	37,378	45,434	29,328
Total current assets	529,125	479,362	389,585
Property and equipment, net of accumulated depreciation and amortization of \$136,983, \$127,679 and \$106,950, respectively.	195,885	180,349	148,561
Deferred income taxes	5,455	6,676	10,486
Long-term investment securities	2,930	27,702	6,669
Other assets	1,645	1,619	1,628
	<u>\$ 735,040</u>	<u>\$ 695,708</u>	<u>\$ 556,929</u>
Liabilities and Shareholders' Equity			
Current liabilities:			
Line of credit	\$ —	\$ —	\$ —
Accounts payable	95,081	73,033	77,987
Income taxes payable	28,146	25,275	27,653
Accrued salaries and wages	5,936	22,906	7,650
Other accrued expenses	51,500	43,246	41,690
Total current liabilities	180,663	164,460	154,980
Deferred rent and other	76,459	72,690	57,763
Total liabilities	257,122	237,150	212,743
Commitments and contingencies (note 5)			
Shareholders' equity:			
Common stock, \$0.01 par value. Authorized 120,000,000 shares; issued and outstanding 55,620,019, 55,438,089 and 55,104,131 shares, respectively.	555	554	551
Additional paid-in capital	343,369	346,300	325,991
Retained earnings	133,994	111,704	17,644
Total shareholders' equity	477,918	458,558	344,186
	<u>\$ 735,040</u>	<u>\$ 695,708</u>	<u>\$ 556,929</u>

See accompanying notes to consolidated financial statements.

FIVE BELOW, INC.
Consolidated Statements of Operations
(Unaudited)
(in thousands, except share and per share data)

	Thirteen Weeks Ended	
	May 5, 2018	April 29, 2017
Net sales	\$ 296,322	\$ 232,881
Cost of goods sold	199,084	159,095
Gross profit	97,238	73,786
Selling, general and administrative expenses	72,532	61,004
Operating income	24,706	12,782
Interest income, net	1,079	309
Income before income taxes	25,785	13,091
Income tax expense	3,981	4,700
Net income	<u>\$ 21,804</u>	<u>\$ 8,391</u>
Basic income per common share	<u>\$ 0.39</u>	<u>\$ 0.15</u>
Diluted income per common share	<u>\$ 0.39</u>	<u>\$ 0.15</u>
Weighted average shares outstanding:		
Basic shares	<u>55,586,037</u>	<u>55,030,682</u>
Diluted shares	<u>56,001,939</u>	<u>55,304,742</u>

See accompanying notes to consolidated financial statements.

FIVE BELOW, INC.
Consolidated Statement of Shareholders' Equity
(Unaudited)
(in thousands, except share data)

	Common stock		Additional paid-in capital	Retained earnings	Total shareholders' equity
	Shares	Amount			
Balance, February 3, 2018	55,438,089	\$ 554	\$ 346,300	\$ 111,704	\$ 458,558
Cumulative effect of ASC 606 adoption	—	—	—	486	486
Share-based compensation expense	—	—	2,692	—	2,692
Issuance of unrestricted stock awards	876	—	62	—	62
Exercise of options to purchase common stock	39,237	—	1,222	—	1,222
Vesting of restricted stock units and performance-based restricted stock units	243,745	2	—	—	2
Common shares withheld for taxes	(101,928)	(1)	(6,907)	—	(6,908)
Net income	—	—	—	21,804	21,804
Balance, May 5, 2018	55,620,019	\$ 555	\$ 343,369	\$ 133,994	\$ 477,918

See accompanying notes to consolidated financial statements.

FIVE BELOW, INC.
Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	Thirteen Weeks Ended	
	May 5, 2018	April 29, 2017
Operating activities:		
Net income	\$ 21,804	\$ 8,391
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,304	7,290
Share-based compensation expense	2,762	4,021
Deferred income tax expense	1,221	553
Other non-cash expenses	7	26
Changes in operating assets and liabilities:		
Inventories	(28,339)	(25,554)
Prepaid income taxes	96	309
Prepaid expenses and other assets	8,031	(234)
Accounts payable	24,237	24,917
Income taxes payable	2,871	3,714
Accrued salaries and wages	(16,970)	(3,144)
Deferred rent	3,390	5,524
Other accrued expenses	4,587	7,920
Net cash provided by operating activities	<u>33,001</u>	<u>33,733</u>
Investing activities:		
Purchases of investment securities	(49,251)	(37,495)
Sales, maturities, and redemptions of investment securities	16,177	5,356
Capital expenditures	(22,513)	(12,820)
Net cash used in investing activities	<u>(55,587)</u>	<u>(44,959)</u>
Financing activities:		
Proceeds from exercise of options to purchase common stock and vesting of restricted and performance-based restricted stock units	1,224	1,141
Common shares withheld for taxes	(6,908)	(766)
Net cash (used in) provided by financing activities	<u>(5,684)</u>	<u>375</u>
Net decrease in cash and cash equivalents	<u>(28,270)</u>	<u>(10,851)</u>
Cash and cash equivalents at beginning of period	112,669	76,088
Cash and cash equivalents at end of period	<u>\$ 84,399</u>	<u>\$ 65,237</u>

Supplemental disclosures of cash flow information:

Non-cash investing activities

Increase in accrued purchases of property and equipment	\$ 1,026	\$ 4,674
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See accompanying notes to consolidated financial statements.

FIVE BELOW, INC.
Notes to Consolidated Financial Statements
(Unaudited)

(1) Summary of Significant Accounting Policies

(a) Nature of Business

Five Below, Inc. (collectively with its wholly owned subsidiary as the "Company") is a specialty value retailer offering merchandise targeted at the teen and pre-teen demographic. The Company offers an edited assortment of products, priced at \$5 and below.

The Company's edited assortment of products includes select brands and licensed merchandise. The Company believes its merchandise is readily available, and that there are a number of potential vendors that could be utilized, if necessary, under approximately the same terms the Company is currently receiving; thus, it is not dependent on a single vendor or a group of vendors.

The Company is incorporated in the Commonwealth of Pennsylvania and, as of May 5, 2018, operated in 32 states that include Pennsylvania, New Jersey, Delaware, Maryland, Virginia, Massachusetts, New Hampshire, West Virginia, North Carolina, New York, Connecticut, Rhode Island, Ohio, Illinois, Indiana, Michigan, Missouri, Georgia, Texas, Tennessee, Maine, Alabama, Kentucky, Kansas, Florida, South Carolina, Mississippi, Louisiana, Wisconsin, Oklahoma, Minnesota and California. As of May 5, 2018 and April 29, 2017, the Company operated 658 stores and 553 stores, respectively, each operating under the name "Five Below" and in August 2016, the Company commenced selling merchandise on the internet, through the Company's fivebelow.com e-commerce website.

(b) Fiscal Year

The Company operates on a 52/53-week fiscal year ending on the Saturday closest to January 31. References to "fiscal year 2018" or "fiscal 2018" refer to the period from February 4, 2018 to February 2, 2019, which is a 52-week fiscal year. References to "fiscal year 2017" or "fiscal 2017" refer to the period from January 29, 2017 to February 3, 2018, which is a 53-week fiscal year. The fiscal quarters ended May 5, 2018 and April 29, 2017 refer to the thirteen weeks ended as of those dates.

(c) Basis of Presentation

The consolidated balance sheets as of May 5, 2018 and April 29, 2017, the consolidated statements of operations for the thirteen weeks ended May 5, 2018 and April 29, 2017, the consolidated statement of shareholders' equity for the thirteen weeks ended May 5, 2018 and the consolidated statements of cash flows for the thirteen weeks ended May 5, 2018 and April 29, 2017 have been prepared by the Company in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") for interim reporting and are unaudited. In the opinion of management, the aforementioned financial statements include all known adjustments (which consist primarily of normal, recurring accruals, estimates and assumptions that impact the financial statements) necessary to present fairly the financial position at the balance sheet dates and the results of operations and cash flows for the periods ended May 5, 2018 and April 29, 2017. The balance sheet as of February 3, 2018, presented herein, has been derived from the audited balance sheet included in the Company's Annual Report on Form 10-K for fiscal 2017 as filed with the Securities and Exchange Commission on March 22, 2018 and referred to herein as the "Annual Report," but does not include all annual disclosures required by U.S. GAAP. These consolidated financial statements should be read in conjunction with the financial statements for the fiscal year ended February 3, 2018 and footnotes thereto included in the Annual Report. The consolidated results of operations for the thirteen weeks ended May 5, 2018 and April 29, 2017 are not necessarily indicative of the consolidated operating results for the year ending February 2, 2019 or any other period. The Company's business is seasonal and as a result, the Company's net sales fluctuate from quarter to quarter. Net sales are usually highest in the fourth fiscal quarter due to the year-end holiday season.

(d) Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 clarifies the principles for recognizing revenue from contracts with customers and outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The effective date of this pronouncement is for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. On February 4, 2018, the Company adopted the pronouncement using the modified retrospective method by recognizing the cumulative effect of gift card breakage as an adjustment to retained earnings resulting in a \$0.5 million increase to retained earnings. The comparative information for the years ended prior to February 4, 2018 were not restated to comply with the pronouncement.

In February 2016, the FASB issued ASU 2016-02, "Leases." ASU 2016-02 requires that lease arrangements longer than 12 months result in an entity recognizing an asset and a liability. The updated guidance is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. The standard requires use of the modified retrospective transition approach. While the Company is currently evaluating this standard, given the significant amount of leases the Company is party to, the Company expects this standard will have a significant impact on the Company's consolidated financial statements from the recognition of right of use assets and related liabilities. The Company plans to adopt this pronouncement in the first quarter of fiscal 2019, coinciding with the pronouncement's effective date, and is currently compiling an inventory of arrangements containing a lease and accumulating the lease data necessary to adopt the pronouncement.

(e) Use of Estimates

The preparation of the consolidated financial statements requires management of the Company to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, valuation allowances for inventories, income taxes and share-based compensation expense.

(f) Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are classified using the following hierarchy, which is based upon the transparency of inputs to the valuation at the measurement date:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Inputs, other than Level 1, that are either directly or indirectly observable.

Level 3: Unobservable inputs developed using the Company's estimates and assumptions which reflect those that market participants would use.

The classification of fair value measurements within the hierarchy is based upon the lowest level of input that is significant to the measurement.

The Company's financial instruments consist primarily of cash equivalents, short-term and long-term investment securities, accounts payable, and borrowings, if any, under a line of credit. The Company believes that: (1) the carrying value of cash equivalents and accounts payable are representative of their respective fair value due to the short-term nature of these instruments; and (2) the carrying value of the borrowings, if any, under the line of credit approximates fair value because the line of credit's interest rates vary with market interest rates. Under the fair value hierarchy, the fair market values of the short-term and long-term investments in corporate bonds are level 1 while the short-term and long-term investments in municipal bonds are level 2. The fair market values of level 2 instruments are determined by management with the assistance of a third party pricing service. Since quoted prices in active markets for identical assets are not available, these prices are determined by the third party pricing service using observable market information such as quotes from less active markets and quoted prices of similar securities.

As of May 5, 2018, February 3, 2018, and April 29, 2017, the Company had cash equivalents of \$60.4 million, \$91.2 million and \$21.6 million, respectively. The Company's cash equivalents consist of credit and debit card receivables, money market funds, corporate bonds, and municipal bonds. Fair value for cash equivalents was determined based on level 1 inputs.

As of May 5, 2018, February 3, 2018, and April 29, 2017, the Company's short-term and long-term investment securities are classified as held-to-maturity since the Company has the intent and ability to hold the investments to maturity. Such securities are carried at amortized cost plus accrued interest and consist of the following (in thousands):

As of May 5, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Short-term:				
Corporate bonds	\$ 177,966	\$ —	\$ 505	\$ 177,461
Municipal bonds	11,838	—	11	11,827
Total	\$ 189,804	\$ —	\$ 516	\$ 189,288
Long-term:				
Corporate bonds	\$ 856	\$ —	\$ 6	\$ 850
Municipal bonds	2,074	—	8	2,066
Total	\$ 2,930	\$ —	\$ 14	\$ 2,916

As of February 3, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Short-term:				
Corporate bonds	\$ 117,373	\$ —	\$ 177	\$ 117,196
Municipal bonds	14,585	—	—	14,585
Total	\$ 131,958	\$ —	\$ 177	\$ 131,781
Long-term:				
Corporate bonds	\$ 25,465	\$ —	\$ 170	\$ 25,295
Municipal bonds	2,237	—	2	2,235
Total	\$ 27,702	\$ —	\$ 172	\$ 27,530

As of April 29, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Short-term:				
Corporate bonds	\$ 65,840	\$ —	\$ 49	\$ 65,791
Municipal bonds	47,935	—	8	47,927
Total	\$ 113,775	\$ —	\$ 57	\$ 113,718
Long-term:				
Corporate bonds	\$ 3,888	\$ —	\$ 2	\$ 3,886
Municipal bonds	2,781	7	—	2,788
Total	\$ 6,669	\$ 7	\$ 2	\$ 6,674

Short-term investment securities as of May 5, 2018, February 3, 2018, and April 29, 2017 all mature in one year or less. Long-term investment securities as of May 5, 2018, February 3, 2018, and April 29, 2017 all mature after one year but in less than three years.

(g) Prepaid Expenses and Other Current Assets

Prepaid expenses as of May 5, 2018, February 3, 2018, and April 29, 2017 were \$19.8 million, \$17.8 million, and \$13.5 million, respectively. Other current assets as of May 5, 2018, February 3, 2018, and April 29, 2017 were \$17.6 million, \$27.6 million, and \$15.8 million, respectively.

(2) Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 clarifies the principles for recognizing revenue from contracts with customers. The Company adopted the standard during the thirteen weeks ended May 5, 2018 using the modified retrospective method by recognizing the cumulative effect as an adjustment to retained earnings.

Revenue Transactions

Revenue from store operations are recognized at the point of sale when control of the product is transferred to the customer at such time. Internet sales, through the Company's fivebelow.com e-commerce website, are recognized when the consumer receives the product as control transfers upon delivery. Returns subsequent to the period end are immaterial; accordingly, no reserve has been recorded. Gift card sales to customers are initially recorded as liabilities and recognized as sales upon redemption for merchandise or as breakage revenue in proportion to the pattern of redemption of the gift cards by the customer in net sales.

The transaction price for the Company's sales are based on the item's stated price. To the extent that the Company charges customers for shipping and handling on e-commerce sales, the Company records such amounts in net sales. Shipping and handling costs, which include fulfillment and shipping costs related to the Company's e-commerce operations, are included in costs of goods sold. The Company has chosen the pronouncement's policy election which allows it to exclude all sales taxes from net sales in the accompanying consolidated statements of operations.

Disaggregation of Revenue

The following table provides information about disaggregated revenue by groups of products: leisure, fashion and home, and party and snack (in thousands):

	Thirteen Weeks Ended		Thirteen Weeks Ended	
	May 5, 2018		April 29, 2017	
	Amount	Percentage of Net Sales	Amount	Percentage of Net Sales
Leisure	\$ 144,721	48.8%	\$ 111,708	48.0%
Fashion and home	91,608	30.9%	71,441	30.7%
Party and snack	59,993	20.3%	49,732	21.3%
Total	\$ 296,322	100.0%	\$ 232,881	100.0%

Financial Statement Impact of Adopting ASU 2014-09

All of the Company's revenue is recognized from contracts with customers and, therefore, is subject to ASU 2014-09. The Company adopted ASU 2014-09 using a modified retrospective approach during the thirteen weeks ended May 5, 2018 and recognized the cumulative effect as an adjustment by increasing retained earnings by \$0.5 million and income taxes payable by \$0.1 million, and reducing accrued expenses by \$0.7 million and deferred tax asset by \$0.1 million. The cumulative adjustment was related to the recognition of gift card breakage. The adoption of ASU 2014-09 had an immaterial impact on the Company's financial statements for the thirteen weeks ended May 5, 2018.

(3) Income Per Common Share

Basic income per common share amounts are calculated using the weighted average number of common shares outstanding for the period. Diluted income per common share amounts are calculated using the weighted average number of common shares outstanding for the period and include the dilutive impact of exercised stock options as well as assumed lapse of restrictions on restricted stock awards and shares currently available for purchase under the Company's Employee Stock Purchase Plan, using the treasury stock method. Performance-based restricted stock units are considered contingently issuable shares for diluted income per common share purposes and the dilutive impact, if any, is not included in the weighted average shares until the performance conditions are met.

The following table reconciles net income and the weighted average common shares outstanding used in the computations of basic and diluted income per common share (in thousands, except for share and per share data):

	Thirteen Weeks Ended	
	May 5, 2018	April 29, 2017
Numerator:		
Net income	\$ 21,804	\$ 8,391
Denominator:		
Weighted average common shares outstanding - basic	55,586,037	55,030,682
Dilutive impact of options, restricted stock units and employee stock purchase plan	415,902	274,060
Weighted average common shares outstanding - diluted	56,001,939	55,304,742
Per common share:		
Basic income per common share	\$ 0.39	\$ 0.15
Diluted income per common share	\$ 0.39	\$ 0.15

The effects of the assumed exercise of stock options for 213,016 shares of common stock for the thirteen weeks ended April 29, 2017, were excluded from the calculation of diluted net income per share as their impact would have been anti-dilutive.

The effects of the assumed exercise of restricted stock units for 52,905 shares of common stock for the thirteen weeks ended April 29, 2017, were excluded from the calculation of diluted net income per share as their impact would have been anti-dilutive.

The aforementioned excluded shares do not reflect the impact of any incremental repurchases under the treasury stock method.

(4) Line of Credit

On May 10, 2017, the Company entered into a Fourth Amended and Restated Loan and Security Agreement (the “Amended Loan and Security Agreement”), among the Company, Five Below Merchandising, Inc. and Wells Fargo Bank, National Association. The Amended Loan and Security Agreement amends and restates the Third Amended and Restated Loan and Security Agreement, dated June 12, 2013, among the Company, Five Below Merchandising, Inc. and Wells Fargo Bank, National Association, which governed the Revolving Credit Facility.

The Amended Loan and Security Agreement includes a revolving line of credit in the amount of up to \$20.0 million (the “Amended Revolving Credit Facility”). Pursuant to the Amended Loan and Security Agreement, advances under the Amended Revolving Credit Facility are no longer tied to a borrowing base; however, the Company is required to maintain eligible inventory at all times in an amount equal to at least \$100.0 million. The Amended Revolving Credit Facility expires on the earliest to occur of (i) May 10, 2022 or (ii) an event of default. The Amended Revolving Credit Facility may be increased to up to \$50.0 million, subject to certain conditions. The Amended Revolving Credit Facility also includes a \$20.0 million sub-limit for the issuance of letters of credit.

The Amended Loan and Security Agreement reduces the interest rate payable on borrowings to be, at the Company’s option, a per annum rate equal to (a) a prime rate or (b) a LIBOR-based rate plus a margin of 1.00%. Letter of credit fees are equal to the interest rate payable on LIBOR-based loans. The interest rate and letter of credit fees under the Amended Loan and Security Agreement are subject to an increase of 2.00% per annum upon an event of default.

The Amended Loan and Security Agreement removes restrictions on the Company’s ability to pay or make dividends and distribute or repurchase its stock, but the Amended Loan and Security Agreement continues to include other customary negative and affirmative covenants including, among other things, limitations on the Company’s ability to (i) incur additional debt; (ii) create liens; (iii) make certain investments, loans and advances; (iv) sell assets; (v) engage in mergers or consolidations; or (vi) change its business.

The Amended Loan and Security Agreement also removes the provisions that required the Company to make prepayments on outstanding Amended Revolving Credit Facility balances upon the receipt of certain proceeds, including those from the sale of certain assets. Amounts under the Amended Revolving Credit Facility may become due upon certain events of default including, among other things, the Company’s failure to comply with the Amended Revolving Credit Facility’s covenants, bankruptcy, default on certain other indebtedness or a change in control.

Under the Amended Loan and Security Agreement, all obligations under the Amended Revolving Credit Facility continue to be guaranteed by Five Below Merchandising, Inc., a wholly-owned subsidiary of the Company, and are secured by substantially all of the assets of the Company and Five Below Merchandising, Inc.

As of May 5, 2018, the Company had no borrowings under the Amended Revolving Credit Facility and had approximately \$20.0 million available on the line of credit.

All obligations under the Amended Revolving Credit Facility are secured by substantially all of the Company's assets and are guaranteed by the Company's subsidiary. As of May 5, 2018 and April 29, 2017, the Company was in compliance with the covenants applicable to it under the Amended Revolving Credit Facility.

(5) Commitments and Contingencies

Commitments

Leases

The Company leases property and equipment under non-cancelable operating leases. Certain retail store lease agreements provide for contingent rental payments if the store's net sales exceed stated levels (percentage rents) and/or contain escalation clauses, which provide for increases in base rental payments for increases in future operating costs. Many of the Company's leases provide for one or more renewal options for periods of five years. The Company's operating lease agreements, including assumed extensions, which are generally those that take the lease to a ten-year term, expire through fiscal 2033.

During the thirteen weeks ended May 5, 2018, the Company committed to 42 new store leases with terms of 10 to 15 years that have future minimum lease payments of approximately \$79.1 million.

Other contractual commitments

As of May 5, 2018, the Company has other purchase commitments of approximately \$3.4 million consisting of purchase agreements for materials that will be used in the construction of new stores.

In June 2018, the Company signed a purchase agreement to build an approximate 700,000 square foot distribution center located in Georgia for approximately \$42 million to support the Company's anticipated growth. The Company expects to occupy the space in January 2019.

Contingencies

Legal Matters

From time to time, the Company is involved in certain legal actions arising in the ordinary course of business. In management's opinion, the outcome of such actions will not have a material adverse effect on the Company's financial condition or results of operations.

(6) Share-Based Compensation

Equity Incentive Plan

Pursuant to the Company's 2002 Equity Incentive Plan (the "Plan"), the Company's board of directors may grant stock options, restricted shares, and restricted stock units to officers, directors, key employees and professional service providers. The Plan, as amended, allows for the issuance of up to a total of 7,600,000 shares under the Plan. As of May 5, 2018, 3,255,632 stock options, restricted shares, or restricted stock units were available for grant.

Common Stock Options

All stock options have a term not greater than ten years. Stock options vest and become exercisable in whole or in part, in accordance with vesting conditions set by the compensation committee of the Company's board of directors. Options granted to date generally vest over four years from the date of grant.

Stock option activity under the Plan was as follows:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Balance as of February 3, 2018	519,485	\$ 29.53	5.9
Exercised	(39,237)	31.21	
Balance as of May 5, 2018	480,248	29.39	5.7
Exercisable as of May 5, 2018	391,582	\$ 28.30	5.4

The fair value of each option award granted to employees, including outside directors, is estimated on the date of grant using the Black-Scholes option-pricing model. There were no stock options granted during the thirteen weeks ended May 5, 2018.

Restricted Stock Units and Performance-Based Restricted Stock Units

All restricted stock units ("RSU") and performance-based restricted stock units ("PSU") vest in accordance with vesting conditions set by the compensation committee of the Company's board of directors. RSU's granted to date have vesting periods ranging from less than one year to five years from the date of grant. PSU's granted to date have vesting periods ranging from one year to five years from the date of grant, including grants that have a cumulative three year performance period, subject to satisfaction of the applicable performance goals established for the respective grant. The Company periodically assesses the probability of achievement of the performance criteria and adjusts the amount of compensation expense accordingly. Compensation is recognized over the vesting period and adjusted for the probability of achievement of the performance criteria.

RSU and PSU activity during the thirteen weeks ended May 5, 2018 was as follows:

	Restricted Stock Units		Performance-Based Restricted Stock Units	
	Number	Weighted-Average Grant Date Fair Value	Number	Weighted-Average Grant Date Fair Value
Non-vested balance as of February 3, 2018	309,554	\$ 38.48	495,659	\$ 37.43
Granted	86,692	68.98	119,056	68.98
Vested	(54,395)	35.66	(189,350)	36.00
Forfeited	(3,763)	39.83	—	—
Non-vested balance as of May 5, 2018	338,088	\$ 46.74	425,365	\$ 46.89

In connection with the vesting of RSU's and PSU's during the thirteen weeks ended May 5, 2018, the Company withheld 101,928 shares with an aggregate value of \$6.9 million in satisfaction of minimum tax withholding obligations due upon vesting.

As of May 5, 2018, there was \$22.2 million of total unrecognized compensation costs related to non-vested share-based compensation arrangements (including stock options, restricted stock units and performance-based restricted stock units) granted under the Plan. The cost is expected to be recognized over a weighted average vesting period of 2.6 years.

(7) Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act (the "TCJA") was enacted. The TCJA includes a number of changes to existing U.S. tax laws that impact the Company, most notably a reduction of the U.S. corporate tax rate from 35% to 21%, for tax years beginning after December 31, 2017. The TCJA also provides for acceleration of depreciation for certain assets placed into service after September 27, 2017, as well as prospective changes beginning in 2018, including additional limitations on deductibility of executive compensation and employee meal benefits.

In fiscal 2017, the Company recorded a net \$0.5 million benefit that represents what the Company believes is the impact of the TCJA. As the benefit is based on currently available information and interpretations, which are continuing to evolve, the benefit should be considered provisional. The Company will continue to analyze additional information and guidance related to the TCJA as supplemental legislation, regulatory guidance, or evolving technical interpretations become available. The final impacts may differ from the recorded amounts in fiscal 2017, and the Company will continue to refine such amounts within the measurement period provided by Staff Accounting Bulletin No. 118.

The following table summarizes the Company's income tax expense and effective tax rates for the thirteen weeks ended May 5, 2018 and April 29, 2017 (dollars in thousands):

	Thirteen Weeks Ended	
	May 5, 2018	April 29, 2017
Income before income taxes	\$ 25,785	\$ 13,091
Income tax expense	\$ 3,981	\$ 4,700
Effective tax rate	15.4%	35.9%

The effective tax rates for the thirteen weeks ended May 5, 2018 and April 29, 2017 were based on the Company's forecasted annualized effective tax

rates and were adjusted for discrete items that occurred within the periods presented. The effective tax rate for the thirteen weeks ended May 5, 2018 was lower than such rate for the thirteen weeks ended April 29, 2017 primarily due to the impact of tax reform as a result of the TCJA and due to discrete items, which include the recognition of net excess income tax benefits related to ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," with respect to the requirement to recognize excess income tax benefits or deficiencies as income tax benefit or expense in the consolidated statements of operations.

The Company had no material accrual for uncertain tax positions or interest and/or penalties related to income taxes on the Company's balance sheets as of May 5, 2018, February 3, 2018, or April 29, 2017 and has not recognized any material uncertain tax positions or interest and/or penalties related to income taxes in the consolidated statements of operations for the thirteen weeks ended May 5, 2018 or April 29, 2017.

The Company files a federal income tax return as well as state tax returns. The Company's U.S. federal income tax returns for the fiscal years ended January 31, 2015 and thereafter remain subject to examination by the U.S. Internal Revenue Service. State returns are filed in various state jurisdictions, as appropriate, with varying statutes of limitation and remain subject to examination for varying periods up to three to four years depending on the state.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion together with "Selected Financial Data," and the consolidated financial statements and related notes included in our Annual Report on Form 10-K for our fiscal year ended February 3, 2018 and referred to herein as the "Annual Report," and the consolidated financial statements and related notes as of and for the thirteen weeks ended May 5, 2018 included in Part I, Item I of this Quarterly Report on Form 10-Q. The statements in this discussion regarding expectations of our future performance, liquidity and capital resources and other non-historical statements are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described below in "Special Note Regarding Forward-Looking Statements" and in Part II, Item 1A "Risk Factors." Our actual results may differ materially from those contained in or implied by any forward-looking statements.

We operate on a fiscal calendar widely used by the retail industry that results in a given fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to January 31 of the following year. References to "fiscal year 2018" or "fiscal 2018" refer to the period from February 4, 2018 to February 2, 2019, which is a 52-week fiscal year. References to "fiscal year 2017" or "fiscal 2017" refer to the period from January 29, 2017 to February 3, 2018, which is a 53-week fiscal year. The fiscal quarters ended May 5, 2018 and April 29, 2017 refer to the thirteen weeks ended as of those dates. Historical results are not necessarily indicative of the results to be expected for any future period and results for any interim period may not necessarily be indicative of the results that may be expected for a full year.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts or present facts or conditions, such as statements regarding our future financial condition or results of operations, our prospects and strategies for future growth, the introduction of new merchandise, and the implementation of our marketing and branding strategies. In many cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential” or the negative of these terms or other comparable terminology.

The forward-looking statements contained in this Quarterly Report on Form 10-Q reflect our views as of the date of this report about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause events or our actual activities or results to differ significantly from those expressed in any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, results, actions, levels of activity, performance or achievements. A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements, including, but not limited to, those factors described in Part I, Item 1A “Risk Factors” in our Annual Report, as amended by the risk factors included in Part II, Item 1A “Risk Factors” in this Quarterly Report on Form 10-Q. These factors include without limitation:

- *failure to successfully implement our growth strategy;*
- *disruptions in our ability to select, obtain, distribute and market merchandise profitably;*
- *reliance on merchandise manufactured outside of the United States;*
- *dependence on a volume of traffic to our stores;*
- *inability to attract and retain qualified employees;*
- *inability to successfully build, operate or expand our distribution centers or network capacity;*
- *disruptions to our distribution network or the timely receipt of inventory;*
- *extreme weather conditions in the areas in which our stores are located could negatively affect our business and results of operations;*
- *failure to secure customers’ confidential or credit card information, or other private data relating to our employees or our company;*
- *increased operating costs or exposure to fraud or theft due to customer payment-related risks;*
- *inability to increase sales and improve the efficiencies, costs and effectiveness of our operations;*
- *dependence on our executive officers, senior management and other key personnel or inability to hire additional qualified personnel;*
- *inability to successfully manage our inventory balances and inventory shrinkage;*
- *inability to meet our lease obligations;*
- *changes in our competitive environment, including increased competition from other retailers and the presence of online retailers;*
- *increasing costs due to inflation, increased operating costs, wage rate increases or energy prices;*
- *the seasonality of our business;*
- *inability to successfully implement our expansion into online retail;*
- *disruptions to our information technology systems in the ordinary course or as a result of system upgrades;*
- *the impact of damage or interruptions to our technology systems;*
- *failure to maintain adequate internal controls;*
- *complications with the design or implementation of the new enterprise resource system;*
- *natural disasters, adverse weather conditions, pandemic outbreaks, global political events, war and terrorism;*
- *the impact of changes in tax legislation;*
- *current economic conditions and other economic factors;*
- *the impact of governmental laws and regulations;*

- *the impact of changes in accounting standards;*
- *the impact to our financial performance related to insurance programs;*
- *the costs and consequences of legal proceedings;*
- *inability to protect our brand name, trademarks and other intellectual property rights;*
- *the impact of product and food safety claims and effects of legislation;*
- *inability to obtain additional financing, if needed;*
- *restrictions imposed by our indebtedness on our current and future operations; and*
- *regulations related to conflict minerals.*

Readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on these forward-looking statements. All of the forward-looking statements we have included in this Quarterly Report on Form 10-Q are based on information available to us on the date of this report. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as otherwise required by law.

Overview

Five Below is a rapidly growing specialty value retailer offering a broad range of trend-right, high-quality merchandise targeted at the teen and pre-teen customer. We offer a dynamic, edited assortment of exciting products, priced at \$5 and below, including select brands and licensed merchandise across our category worlds. As of May 5, 2018, we operated 658 stores in 32 states.

In August 2016, we commenced selling merchandise on the internet, through our fivebelow.com e-commerce website. We launched our e-commerce operation as an additional channel to service our customers. All e-commerce sales, which includes shipping and handling revenue, are included in net sales and beginning with the third fiscal quarter of 2016, are included in comparable sales. Our e-commerce expenses will have components classified as both cost of goods sold and selling, general and administrative expenses.

On December 22, 2017, the Tax Cuts and Jobs Act (the "TCJA") was enacted. The TCJA includes a numbers of changes to existing U.S. tax laws that impact us, most notably a reduction of the U.S. corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017. We will continue to analyze additional information and guidance related to the TCJA as supplemental legislation, regulatory guidance, or evolving technical interpretations become available. See discussion below under "Income Tax Expense" for further information about the tax benefits and expenses that we recognized this year. In fiscal 2018 and future years, we may invest a portion of any savings generated by the TCJA into expenses that could significantly increase and impact the comparability between periods of Cost of Goods Sold and Gross Profit, Selling, General and Administrative Expenses and Operating Income.

How We Assess the Performance of Our Business

In assessing the performance of our business, we consider a variety of performance and financial measures. These key measures include net sales, comparable sales, cost of goods sold and gross profit, selling, general and administrative expenses and operating income.

Net Sales

Net sales constitute gross sales net of merchandise returns for damaged or defective goods. Net sales consist of sales from comparable stores, non-comparable stores, and e-commerce, which includes shipping and handling revenue. Revenue from the sale of gift cards is deferred and not included in net sales until the gift cards are redeemed to purchase merchandise or as breakage revenue in proportion to the pattern of redemption of the gift cards by the customer.

Our business is seasonal and as a result, our net sales fluctuate from quarter to quarter. Net sales are usually highest in the fourth fiscal quarter due to the year-end holiday season.

Comparable Sales

Comparable sales include net sales from stores that have been open for at least 15 full months from their opening date, and e-commerce sales. Comparable stores include the following:

- Stores that have been remodeled while remaining open;
- Stores that have been relocated within the same trade area, to a location that is not significantly different in size, in which the new store opens at about the same time as the old store closes; and
- Stores that have expanded, but are not significantly different in size, within their current locations.

For stores that are relocated or expanded, the following periods are excluded when calculating comparable sales:

- The period beginning when the closing store receives its last merchandise delivery from one of our distribution centers through:
 - the last day of the fiscal year in which the store was relocated or expanded (for stores that increased significantly in size); or
 - the last day of the fiscal month in which the store re-opens (for all other stores); and
- The period beginning on the first anniversary of the date the store received its last merchandise delivery from one of our distribution centers through the first anniversary of the date the store re-opened.

Comparable sales exclude the 53rd week of sales for 53-week fiscal years. In the 52-week fiscal year subsequent to a 53-week fiscal year, we exclude the sales in the non-comparable week from the same-store sales calculation.

Due to the 53rd week in fiscal 2017, comparable sales for the thirteen weeks ended May 5, 2018 are reported on a restated calendar basis. Reference to the "restated calendar" is based on using the National Retail Federation's restated calendar comparing similar weeks, which are the thirteen weeks from February 4, 2018 to May 5, 2018 as compared to the thirteen weeks from February 5, 2017 to May 6, 2017.

There may be variations in the way in which some of our competitors and other retailers calculate comparable or "same store" sales. As a result, data in this Quarterly Report on Form 10-Q regarding our comparable sales may not be comparable to similar data made available by other retailers. Non-comparable sales are comprised of new store sales, sales for stores not open for a full 15 months, and sales from existing store relocation and expansion projects that were temporarily closed (or not receiving deliveries) and not included in comparable sales.

Measuring the change in fiscal year-over-year comparable sales allows us to evaluate how our store base is performing. Various factors affect comparable sales, including:

- consumer preferences, buying trends and overall economic trends;
- our ability to identify and respond effectively to customer preferences and trends;
- our ability to provide an assortment of high-quality, trend-right and everyday product offerings that generate new and repeat visits to our stores;
- the customer experience we provide in our stores and online;
- the level of traffic near our locations in the power, community and lifestyle centers in which we operate;
- competition;
- changes in our merchandise mix;
- pricing;
- our ability to source and distribute products efficiently;
- the timing of promotional events and holidays;
- the timing of introduction of new merchandise and customer acceptance of new merchandise;
- our opening of new stores in the vicinity of existing stores;
- the number of items purchased per store visit; and
- weather conditions.

Opening new stores is an important part of our growth strategy. As we continue to pursue our growth strategy, we expect that a significant percentage of our net sales will continue to come from new stores not included in comparable sales. Accordingly, comparable sales is only one measure we use to assess the success of our growth strategy.

Cost of Goods Sold and Gross Profit

Gross profit is equal to our net sales less our cost of goods sold. Gross margin is gross profit as a percentage of our net sales. Cost of goods sold reflects the direct costs of purchased merchandise and inbound freight, as well as shipping and handling costs, store occupancy, distribution and buying expenses. Shipping and handling costs include third-party fulfillment and shipping costs related to our e-commerce operations. Store occupancy costs include rent, common area maintenance, utilities and property taxes for all store locations. Distribution costs include costs for receiving, processing, warehousing and shipping of merchandise to or from our distribution centers and between store locations. Buying costs include compensation expense and other costs for our internal buying organization, including our merchandising and product development team and our planning and allocation group. These costs are significant and can be expected to continue to increase as our company grows.

The components of our cost of goods sold may not be comparable to the components of cost of goods sold or similar measures of our competitors and other retailers. As a result, data in this Quarterly Report on Form 10-Q regarding our gross profit and gross margin may not be comparable to similar data made available by our competitors and other retailers.

The variable component of our cost of goods sold is higher in higher volume quarters because the variable component of our cost of goods sold generally increases as net sales increase. We regularly analyze the components of gross profit as well as gross margin. Any inability to obtain acceptable levels of initial markups, a significant increase in our use of markdowns, and a significant increase in inventory shrinkage or inability to generate sufficient sales leverage on the store occupancy, distribution and buying components of cost of goods sold could have an adverse impact on our gross profit and results of operations. Changes in the mix of our products may also impact our overall cost of goods sold.

Selling, General and Administrative Expenses

Selling, general and administrative, or SG&A, expenses are composed of payroll and other compensation, marketing and advertising expense, depreciation and amortization expense and other selling and administrative expenses. SG&A expenses as a percentage of net sales are usually higher in lower sales volume quarters and lower in higher sales volume quarters.

The components of our SG&A expenses may not be comparable to those of other retailers. We expect that our SG&A expenses will increase in future periods due to our continuing store growth. In addition, any increase in future share-based grants or modifications will increase our share-based compensation expense included in SG&A expenses.

Operating Income

Operating income equals gross profit less SG&A expenses. Operating income excludes interest expense or income, and income tax expense or benefit. We use operating income as an indicator of the productivity of our business and our ability to manage SG&A expenses. Operating income percentage measures operating income as a percentage of our net sales.

Results of Consolidated Operations

The following tables summarize key components of our results of consolidated operations for the periods indicated, both in dollars and as a percentage of our net sales.

	Thirteen Weeks Ended	
	May 5, 2018	April 29, 2017
(in millions, except percentages and total stores)		
Consolidated Statements of Operations Data ⁽¹⁾:		
Net sales	\$ 296.3	\$ 232.9
Cost of goods sold	199.1	159.1
Gross profit	97.2	73.8
Selling, general and administrative expenses	72.5	61.0
Operating income	24.7	12.8
Interest income, net	1.1	0.3
Income before income taxes	25.8	13.1
Income tax expense	4.0	4.7
Net income	\$ 21.8	\$ 8.4
Percentage of Net Sales ⁽¹⁾:		
Net sales	100.0%	100.0%
Cost of goods sold	67.2	68.3
Gross profit	32.8	31.7
Selling, general and administrative expenses	24.5	26.2
Operating income	8.3	5.5
Interest income, net	0.4	0.1
Income before income taxes	8.7	5.6
Income tax expense	1.3	2.0
Net income	7.4%	3.6%
Operational Data:		
Total stores at end of period	658	553
Comparable sales growth	3.2%	2.6%
Average net sales per store ⁽²⁾	\$ 0.5	\$ 0.4

⁽¹⁾ Components may not add to total due to rounding.

⁽²⁾ Only includes stores open during the full thirteen weeks ended.

Thirteen Weeks Ended May 5, 2018 Compared to the Thirteen Weeks Ended April 29, 2017

Net Sales

Net sales increased to \$296.3 million in the thirteen weeks ended May 5, 2018 from \$232.9 million in the thirteen weeks ended April 29, 2017, an increase of \$63.4 million, or 27.2%. The increase was the result of a non-comparable sales increase of \$51.2 million and a comparable sales increase of \$12.2 million. The increase in non-comparable sales was primarily driven by the number of stores that opened in fiscal 2017 but have not been open for 15 full months and new stores that opened in fiscal 2018. We plan to open approximately 125 new stores in fiscal 2018.

Comparable sales, based on the restated calendar, increased 3.2%. This increase resulted from an increase of approximately 3.8% in the average dollar value of transactions partially offset by a decrease of approximately 0.6% in the number of transactions.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased to \$199.1 million in the thirteen weeks ended May 5, 2018 from \$159.1 million in the thirteen weeks ended April 29, 2017, an increase of \$40.0 million, or 25.1%. The increase in cost of goods sold was primarily the result of an increase in the merchandise cost of goods resulting from the increase in net sales. Also contributing to the increase in cost of goods sold were an increase in store occupancy costs resulting from new store openings.

Gross profit increased to \$97.2 million in the thirteen weeks ended May 5, 2018 from \$73.8 million in the thirteen weeks ended April 29, 2017, an increase of \$23.4 million, or 31.8%. Gross margin increased to 32.8% for the thirteen weeks ended May 5, 2018 from 31.7% in the thirteen weeks ended April 29, 2017, an increase of approximately 110 basis points. The increase in gross margin was primarily the result of a decrease as a percentage of net sales in store occupancy costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$72.5 million in the thirteen weeks ended May 5, 2018 from \$61.0 million in the thirteen weeks ended April 29, 2017, an increase of \$11.5 million, or 18.9%. As a percentage of net sales, selling, general and administrative expenses decreased approximately 170 basis points to 24.5% in the thirteen weeks ended May 5, 2018 compared to 26.2% in the thirteen weeks ended April 29, 2017. The increase in selling, general and administrative expenses was primarily the result of increases of \$10.3 million in store-related expenses to support new store growth and \$1.2 million of corporate-related expenses.

Income Tax Expense

Income tax expense decreased to \$4.0 million in the thirteen weeks ended May 5, 2018 from \$4.7 million in the thirteen weeks ended April 29, 2017, a decrease of \$0.7 million, or 15.3%. The decrease in income tax expense was primarily the result of the impact of tax reform as a result of the TCJA and due to discrete items, which include the recognition of net excess income tax benefits related to ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting." These decreases were partially offset by a \$12.7 million increase in pre-tax income.

Our effective tax rate for the thirteen weeks ended May 5, 2018 was 15.4% compared to 35.9% in the thirteen weeks ended April 29, 2017. Our effective tax rate for the thirteen weeks ended May 5, 2018 was lower than the comparable period primarily due to the impact of tax reform as a result of the TCJA and discrete items, which include the impact of the adoption of ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting."

Net Income

As a result of the foregoing, net income increased to \$21.8 million in the thirteen weeks ended May 5, 2018 from \$8.4 million in the thirteen weeks ended April 29, 2017, an increase of \$13.4 million or 159.8%.

Liquidity and Capital Resources

Overview

Our primary source of liquidity is cash flows from operations. Our primary cash needs are for capital expenditures and working capital.

Capital expenditures typically vary depending on the timing of new store openings and infrastructure-related investments. We plan to make capital expenditures of approximately \$137 million in fiscal 2018, which exclude the impact of tenant allowances, and which we expect to fund from cash generated from operations. We expect to incur approximately \$38 million of our capital expenditure budget in fiscal 2018 to construct and open approximately 125 new stores, with the remainder projected to be spent on our distribution facilities, our existing stores, and our corporate infrastructure.

Our primary working capital requirements are for the purchase of store inventory and payment of payroll, rent, other store operating costs and distribution costs. Our working capital requirements fluctuate during the year, rising in the third and fourth fiscal quarters as we take title to increasing quantities of inventory in anticipation of our peak, year-end holiday shopping season in the fourth fiscal quarter. Fluctuations in working capital are also driven by the timing of new store openings.

Historically, we have funded our capital expenditures and working capital requirements during the fiscal year with cash on hand, net cash provided by operating activities and borrowings under our Amended Revolving Credit Facility. When we have used our Amended Revolving Credit Facility, the amount of indebtedness outstanding under it has tended to be the highest in the beginning of the fourth quarter of each fiscal year. To the extent that we have drawn on the facility, we have paid down the borrowings before the end of the fiscal year with cash generated during our peak selling season in the fourth quarter. We did not have any direct borrowings under our Amended Revolving Credit Facility during the thirteen weeks ended May 5, 2018. As of May 5, 2018, we had approximately \$20.0 million available on the line of credit.

On March 20, 2018, our board of directors approved a share repurchase program authorizing the repurchase of up to \$100 million of our common stock through March 31, 2021, on the open market, in privately negotiated transactions, or otherwise. There can be no assurances that any such repurchases will be completed, or as to the timing or amount of any repurchases. For the thirteen weeks ended May 5, 2018, we did not execute any repurchases.

Based on our growth plans, we believe that our cash position, which includes our cash equivalents and short-term investments, net cash provided by operating activities and availability under our Amended Revolving Credit Facility will be adequate to finance our planned capital expenditures, authorized share repurchases and working capital requirements over the next 12 months and for the foreseeable future thereafter. If cash flows from operations and borrowings under our Amended Revolving Credit Facility are not sufficient or available to meet our requirements, then we will be required to obtain additional equity or debt financing in the future. There can be no assurance that equity or debt financing will be available to us when we need it or, if available, that the terms will be satisfactory to us and not dilutive to our then-current shareholders.

Cash Flows

A summary of our cash flows from operating, investing and financing activities is presented in the following table (in millions):

	Thirteen Weeks Ended	
	May 5, 2018	April 29, 2017
Net cash provided by operating activities	\$ 33.0	\$ 33.7
Net cash used in investing activities	(55.6)	(45.0)
Net cash (used in) provided by financing activities	(5.7)	0.4
Net decrease during period in cash and cash equivalents ⁽¹⁾	\$ (28.3)	\$ (10.9)

⁽¹⁾ Components may not add to total due to rounding.

Cash Provided by Operating Activities

Net cash provided by operating activities for the thirteen weeks ended May 5, 2018 was \$33.0 million, a decrease of \$0.7 million compared to the thirteen weeks ended April 29, 2017. The decrease was primarily due to changes in overall working capital and an increase in income taxes paid partially offset by an increase in operating cash flows from store performance.

Cash Used in Investing Activities

Net cash used in investing activities for the thirteen weeks ended May 5, 2018 was \$55.6 million, an increase of \$10.6 million compared to the thirteen weeks ended April 29, 2017. The increase was primarily due to increases in capital expenditures and net purchases of investment securities. The increase in capital expenditures was primarily for our new store construction, our corporate infrastructure, and our distribution facilities.

Cash (Used in) Provided by Financing Activities

Net cash used in financing activities for the thirteen weeks ended May 5, 2018 was \$5.7 million, an increase of \$6.1 million compared to the thirteen weeks ended April 29, 2017. The increase was primarily the result of an increase in the common shares withheld for taxes.

Line of Credit

On May 10, 2017, we entered into a Fourth Amended and Restated Loan and Security Agreement (the "Amended Loan and Security Agreement"), among Five Below Inc., Five Below Merchandising, Inc. and Wells Fargo Bank, National Association. The Amended Loan and Security Agreement amends and restates the Third Amended and Restated Loan and Security Agreement, dated June 12, 2013, among Five Below Inc., Five Below Merchandising, Inc. and Wells Fargo Bank, National Association, which governed the Revolving Credit Facility.

The Amended Loan and Security Agreement includes a revolving line of credit in the amount of up to \$20.0 million (the “Amended Revolving Credit Facility”). Pursuant to the Amended Loan and Security Agreement, advances under the Amended Revolving Credit Facility are no longer tied to a borrowing base; however, we are required to maintain eligible inventory at all times in an amount equal to at least \$100.0 million. The Amended Revolving Credit Facility expires on the earliest to occur of (i) May 10, 2022 or (ii) an event of default. The Amended Revolving Credit Facility may be increased to up to \$50.0 million, subject to certain conditions. The Amended Revolving Credit Facility also includes a \$20.0 million sub-limit for the issuance of letters of credit.

The Amended Loan and Security Agreement reduces the interest rate payable on borrowings to be, at our option, a per annum rate equal to (a) a prime rate or (b) a LIBOR-based rate plus a margin of 1.00%. Letter of credit fees are equal to the interest rate payable on LIBOR-based loans. The interest rate and letter of credit fees under the Amended Loan and Security Agreement are subject to an increase of 2.00% per annum upon an event of default.

The Amended Loan and Security Agreement removes restrictions related to our ability to pay or make dividends and distribute or repurchase our stock, but the Amended Loan and Security Agreement continues to include other customary negative and affirmative covenants including, among other things, limitations on our ability to (i) incur additional debt; (ii) create liens; (iii) make certain investments, loans and advances; (iv) sell assets; (v) engage in mergers or consolidations; or (vi) change our business.

The Amended Loan and Security Agreement also removes the provisions that required us to make prepayments on outstanding Amended Revolving Credit Facility balances upon the receipt of certain proceeds, including those from the sale of certain assets. Amounts under the Amended Revolving Credit Facility may become due upon certain events of default including, among other things, our failure to comply with the Amended Revolving Credit Facility’s covenants, bankruptcy, default on certain other indebtedness or a change in control.

Under the Amended Loan and Security Agreement, all obligations under the Amended Revolving Credit Facility continue to be guaranteed by our subsidiary and are secured by substantially all of our and our subsidiary’s assets.

As of May 5, 2018, we had approximately \$20.0 million available on the line of credit.

All obligations under the Amended Revolving Credit Facility are secured by substantially all of our assets and are guaranteed by our subsidiary. As of May 5, 2018 and April 29, 2017, we were in compliance with the covenants applicable to us under the Amended Revolving Credit Facility.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. Predicting future events is inherently an imprecise activity and, as such, requires the use of judgment. Actual results may vary from estimates in amounts that may be material to the financial statements. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our consolidated financial statements. Our critical accounting policies and estimates are discussed in the Annual Report. We believe that there have been no significant changes to our critical accounting policies during the thirteen weeks ended May 5, 2018.

Contractual Obligations

Except as set forth below, there have been no material changes to our contractual obligations as disclosed in the Annual Report, other than those which occur in the ordinary course of business.

From February 4, 2018 to May 5, 2018, we have entered into 42 new fully executed retail leases with terms of 10 to 15 years and other lease modifications that have future minimum lease payments of approximately \$79.1 million.

In June 2018, we signed a purchase agreement to build an approximate 700,000 square foot distribution center located in Georgia for approximately \$42 million to support our anticipated growth. We expect to occupy the space in January 2019.

Off-Balance Sheet Arrangements

For the quarterly period ended May 5, 2018, except for operating leases entered into in the normal course of business, we were not party to any material off-balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, net sales, expenses, results of operations, liquidity, capital expenditures or capital resources.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).” ASU 2014-09 clarifies the principles for recognizing revenue from contracts with customers and outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The effective date of this pronouncement is for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. On February 4, 2018, we adopted the pronouncement using the modified retrospective method by recognizing the cumulative effect of gift card breakage as an adjustment to retained earnings resulting in a \$0.5 million increase to retained earnings. The comparative information for the years ended prior to February 4, 2018 were not restated to comply with the pronouncement.

In February 2016, the FASB issued ASU 2016-02, “Leases.” ASU 2016-02 requires that lease arrangements longer than 12 months result in an entity recognizing an asset and a liability. The updated guidance is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. The standard requires use of the modified retrospective transition approach. While we are currently evaluating this standard, given the significant amount of leases that we are party to, we expect this standard will have a significant impact on our consolidated financial statements from the recognition of right to use assets and related liabilities. We plan to adopt this pronouncement in the first quarter of fiscal 2019, coinciding with the pronouncement’s effective date, and we are currently compiling an inventory of arrangements containing a lease and accumulating the lease data necessary to adopt the pronouncement.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our principal market risk relates to interest rate sensitivity, which is the risk that future changes in interest rates will reduce our net income or net assets. We have short-term investment securities that are interest-bearing securities and if there are changes in interest rates, those changes would affect the interest income we earn on these investments and, therefore, impact our cash flows and results of operations. However, due to the short term nature of our investment portfolio, we do not believe an immediate 100 basis point increase or decrease in interest rates would have a material effect on the fair market value of our portfolio, and accordingly we do not expect our operating results or cash flows to be materially affected by a sudden change in market interest rates.

We also have an Amended Revolving Credit Facility which includes a revolving line of credit, which bears interest at a variable rate. Because our Amended Revolving Credit Facility bears interest at a variable rate, we will be exposed to market risks relating to changes in interest rates.

As of May 5, 2018, we had approximately \$20.0 million available on the line of credit. The Amended Revolving Credit Facility reduces the interest rate payable on borrowings to be, at our option, a per annum rate equal to (a) a prime rate or (b) a LIBOR-based rate plus a margin of 1.00%. Letter of credit fees are equal to the interest rate payable on LIBOR-based loans. The interest rate and letter of credit fees under the Amended Revolving Credit Facility are subject to an increase of 2.00% per annum upon an event of default. We do not use derivative financial instruments for speculative or trading purposes, but this does not preclude our adoption of specific hedging strategies in the future.

Impact of Inflation

Our results of operations and financial condition are presented based on historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on our historical results of operations and financial condition have been immaterial. We cannot assure you, however, that our results of operations and financial condition will not be materially impacted by inflation in the future.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management has evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as defined in Rule 13(a)-15(e) of the Securities Exchange Act of 1934 (the “Exchange Act”), as of the end of the period covered by this Quarterly Report on Form 10-Q pursuant to Rule 13a-15(b) of the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q are effective at a reasonable assurance level in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures will prevent or detect all errors and all fraud. While our disclosure controls and procedures are designed to provide reasonable assurance of their effectiveness, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting during the thirteen weeks ended May 5, 2018 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to various proceedings, lawsuits, disputes, and claims arising in the ordinary course of our business. Many of these actions raise complex factual and legal issues and are subject to uncertainties. Actions filed against us from time to time include commercial, intellectual property, customer, and employment actions, including class action lawsuits. The plaintiffs in some actions seek unspecified damages or injunctive relief, or both. Actions are in various procedural stages, and some are covered in part by insurance. We cannot predict with assurance the outcome of actions brought against us. Accordingly, adverse developments, settlements, or resolutions may occur and negatively impact income in the quarter of such development, settlement or resolution. If a potential loss arising from these lawsuits, claims and pending actions is probable and reasonably estimable, we record the estimated liability based on circumstances and assumptions existing at the time. Although the outcome of these and other claims cannot be predicted with certainty, management does not believe that the ultimate resolution of these matters will have a material adverse effect on our financial condition or results of operations.

ITEM 1A. RISK FACTORS

Risk factors that affect our business and financial results are discussed in Part I, Item 1A “Risk Factors” in our Annual Report. There have been no material changes in our risk factors from those previously disclosed in our Annual Report. You should carefully consider the risks described in our Annual Report, which could materially affect our business, financial condition or future results. The risks described in our Annual Report are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and/or operating results. If any of the risks actually occur, our business, financial condition, and/or results of operations could be negatively affected.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits

No.	Description
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101†	The following financial information from this Quarterly Report on Form 10-Q for the fiscal quarter ended May 5, 2018, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Unaudited Consolidated Balance Sheets as of May 5, 2018, February 3, 2018 and April 29, 2017; (ii) the Unaudited Consolidated Statements of Operations for the Thirteen Weeks Ended May 5, 2018 and April 29, 2017; (iii) the Unaudited Consolidated Statement of Shareholders' Equity for the Thirteen Weeks Ended May 5, 2018; (iv) the Unaudited Consolidated Statements of Cash Flows for the Thirteen Weeks Ended May 5, 2018 and April 29, 2017 and (v) the Notes to Unaudited Consolidated Financial Statements, tagged in detail.
†	Pursuant to applicable securities laws and regulations, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Exchange Act of 1934, as amended, and otherwise is not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIVE BELOW, INC.

Date: June 7, 2018

/s/ Joel D. Anderson

Joel D. Anderson
President and Chief Executive Officer (Principal Executive Officer)

Date: June 7, 2018

/s/ Kenneth R. Bull

Kenneth R. Bull
Chief Financial Officer and Treasurer (Principal Financial Officer and
Principal Accounting Officer)

EXHIBIT INDEX

No.	Description
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CERTIFICATION

Exhibit 31.1

I, Joel D. Anderson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Five Below, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Joel D. Anderson

Name: Joel D. Anderson

Title: President and Chief Executive Officer

Dated: **June 7, 2018**

CERTIFICATION

Exhibit 31.2

I, Kenneth R. Bull, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Five Below, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Kenneth R. Bull

Name: Kenneth R. Bull

Title: Chief Financial Officer and Treasurer

Dated: **June 7, 2018**

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Five Below, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended May 5, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joel D. Anderson, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Joel D. Anderson

Joel D. Anderson

President and Chief Executive Officer

Date: **June 7, 2018**

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Five Below, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended May 5, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth R. Bull, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kenneth R. Bull

Kenneth R. Bull

Chief Financial Officer and Treasurer

Date: **June 7, 2018**

