

five BELOW® IN THE NEWS!

PHILADELPHIA
BUSINESS JOURNAL

Exclusive: Five Below CEO on post-coronavirus opportunities and his hardest day as a leader

By Ryan Sharrow April 6, 2020



Five Below CEO Joel Anderson has led the retailer since 2015.

Five Below Inc. CEO Joel Anderson is used to fielding questions about the fast-growing retailer's sales performance. Ask him today and his response has never been simpler.

"You usually can say, 'Oh they're good — a little less than last year, a little more,'" Anderson said. "It's pretty easy to quantify right now. It's zero."

Philadelphia-based Five Below shuttered all 900 of its stores across 36 states on March 19 in response to the coronavirus, a worldwide pandemic battering retailers big and small. Five Below operates an e-commerce business but Anderson said "the vast, vast majority" of sales comes from its brick-and-mortar stores. The company on Tuesday furloughed over 10,000 store and distribution associates, agreeing to cover their health benefits costs through April.

The move was "easily the hardest day in my career as a leader," said Anderson, the former CEO of Walmart.com who took over the top spot at Five Below in 2015.

For Five Below, which was founded in 2002, the coronavirus comes during the retailer's aggressive growth strategy targeting tweens and teens. The company opened 150 new stores in 2019 and mapped out plans for another 180 this year. Each store averages 8,500 square feet and sells items from music and art to sports and candy, most of which are priced between \$1 and \$5. The company posted 2019 sales of nearly \$1.85 billion, up 18% over the year before and more than double from 2015.

Anderson notes that Five Below (NASDAQ: FIVE) has \$262 million in cash and no debt on its balance sheet, placing the company in a better position than some of its peers.

In an interview with the Business Journal, Anderson, 55, talked about the status of Five Below's growth plans, how the company is weathering the storm, where he sees opportunities, and his view on the strength of the consumer when the economy rebounds: This interview has been edited for brevity and clarity.

How has the current situation impacted your growth strategy?

JA: The original plan for this year was 180 new stores. I suppose the silver lining in this whole thing for Five Below is we are still in the infancy of our growth cycle. We believe there is room for over 2,500 stores in the United States and we finished 2019 at 900. Obviously with stores being closed and work stopping in many cities across the country, that 180 is in limbo right now. We will certainly pick that up as stores start to reopen in cities and we will look at it state-by-state. But right now we have not reguiled on the number. Once we do, whatever that number is this year, we'll get back in our growth mode once again and opening new stores.

What has changed in your strategy? How are you taking things day-by-day?

JA: It's clearly changed our strategy quite a bit. Like every company right now, you're focused on cash management and liquidity. We're in a fortunate spot as we're starting from a position of strength. Having said that, on the cash outlay we are reviewing all options. We are looking at every expense. We had to delay merchandise coming in. We've canceled orders — like everybody is doing when you don't have the stores open, there's not a lot selling. But everybody is focused on the balance sheet and cash management. Every retailer is in that same position.

Have you had talks with your landlords?

JA: Yes, we have. Those discussions are ongoing right now. In some states, Ohio being one, where they have put an executive order out from the governor, it'll be a little bit easier. I think every state is dealing with this a little bit differently, and every landlord and company. It's going to turn out to be a location-by-location situation. I think everybody realizes this is not a normal situation, and we're all going to have to figure out some flexibility as we figure out what's right going forward.

As a CEO, how do you prepare for something like this and what have you learned?

JA: I would tell you laying off 10,000-plus associates was easily the hardest day in my career as a leader. But if you're grounded in strong values and if you've always been a people-centered leader, it should come easier in the sense you stay committed to what your values are and I think that's been the focus for us at here at Five Below in terms of how we approach everything. We treated our people very fairly in the furloughs, and as a leader it's important that I stay transparent, I stay in front of people and continue to communicate. And, by the way, that's how I did it in good times. If you do that in good times and follow that same strategy in tough times, your authenticity and believability is much more intact than if this is suddenly a new way of working as a leader. That's the way I've approached everything.

You've been in the retail game a long time. Looking forward, where do you see the strength of the consumer in the next few months? Do you see things rebounding?

JA: I think it's going to vary by geography. Having lived through 9/11, [the financial crisis in] 2008 — thankfully we're in the value space. I think '08 really reset Americans, and value has had a nice 10-year run ever since and I don't see that changing as we come out of this situation as well. Clearly, I think value retailers are going to be the first to win back their customers. It's been amazing to watch the American spirit, the human spirit. The number of letters and comments on our Facebook page of positivity are incredible. My favorite kind of goes old school, forget social media. Not driven by corporate, we had so many of our associates post goodbye messages on our stores. Conversely, at other stores we've had customers post messages back to us, the Five Below team. You're really seeing the American spirit alive and well. That true character is coming out on all levels, and in many ways people are becoming appreciative of what we have.

Talk about some of the federal programs available.

JA: There's a ton of federal programs out there. I applaud them for getting something done so quickly. It's truly needed. The single biggest area we're taking advantage of is as we furlough our associates we know they've got a backstop in the federal government. There's plenty in there on corporations delaying of taxes and certainly lots floating through there that we're trying to dig through. They did a good job of getting something out there for everybody. It's not perfect. It was a historic number, and if we can get both sides to work even closer together I think they'll get it right on the next one too. In general, it was needed and really gave some sense of stability for everybody.

What are you telling investors?

JA: We were on a phone call with investors earlier this week. Obviously, they wanted to check in our cash liquidity situation and we fortunately are in good shape there. And they wanted to know about our growth plans going forward. We are in the early stages and none of that changes. In many ways as things get back to normal I think we'll find some opportunities to get into cities and states we haven't been able to get into in the past because now there's some vacancies available. If you were a weak retailer going into this, this probably isn't a good situation to be in. But we were in a nice situation, fortunately.

Any other silver linings?

JA: One of our five values is hold the penny hostage. We've uncovered cost containment ideas we never thought of. When your sales are zero, you really dig under the covers deeply.

fiVE BELoW® IN THE NEWS!

The Washington Post

Five Below is a wonderland of things no one needs. It's also one of the most successful retailers in America.

By Taylor Telford December 28, 2018



Shoppers browse a Five Below in the District on Dec. 20. (Amanda Andrade-Rhoades/For The Washington Post)

Stepping into Five Below feels like being sucked into an arcade game.

For kids, succeeding at this game means handling as much merchandise as humanly possible, accruing points for every fingerprint left on a Hatchimal (a big-eyed plush creature that hatches from a speckled egg) or sparkly slime. For adults, the game means navigating the labyrinth of glitter, neon and Instagrammable products to find something fun and surprisingly worthwhile. Everyone must avoid collision with squealing children that hurtle like missiles through the aisles. The final task is the serpentine checkout line.

One recent evening before Christmas, at the Five Below on Market Street NE in the District, Angel Mckevie was on a mission for gift ideas, so she let loose her 5-year-old daughter in the store. Every time Kennidi clutched something to her chest, Mckevie, 30, made a note. She planned to come back and get everything later, while Kennidi was with her father.

"Oooh, can I get this?" Kennidi asked as she held up a Shopkin (a tiny, shiny plastic doll enclosed in an orb).

"We'll see," she said, in the tone that's parent code for "Yes, if you're good."

Kennidi started jumping up and down. "Please! I really, really want it!" With its menagerie of shiny, nonessential items that cost \$5 or less, Five Below has been shaping a new category of retailer,

one that harnesses fun in a consumer landscape often dominated by necessity. Nobody needs hedgehog headphones or lava lamps or unicorns full of iridescent ooze. But for many, there's something thrilling about being swept up in a shopping experience that hinges on surprise as much as affordability.

"If you spend time in a dollar store or mass merchant like Target or Walmart, it's not really about letting go because you're there to meet your needs," said David Makuen, executive vice president of marketing and strategy. "Our purpose is really simple: We want customers to be able to let go and have fun."

In the decade since the Great Recession, consumer habits have shifted, with more shoppers looking both for bargains and experiences more than luxury. That's been a boon to inexpensive stores such as Walmart, Dollar Star and Dollar. But as malls and their anchor stores have begun to fade, it hasn't been clear what might fill that hole. Five Below could be part of the answer.

A 16-year-old company, Five Below added 125 new locations in 2018. In 2017, it reported revenue exceeding \$1 billion, according to its earnings reports. This year, it has already surpassed that figure. Eventually, Five Below aims to have 2,500 U.S. locations and go international. The company is also toying with a move to a slightly higher price point, currently operating six Ten Below stores at cities on the East Coast.

Founded in Philadelphia, Five Below benefited from shifts in spending habits without being in direct competition with other discount-heavy stores. Even if their marquee products capitalize on fads and quirky buys, the stores still carry a wide variety of merchandise and practical items, including electronics and fitness equipment. The chain's website touts an "amazing experience with unlimited possibilities," and its stores are lined with slogans such as "\$1 stuff: As close to free as it can be!"

The question it faces is whether it will continue to thrive in a hypercompetitive environment. Myriad online competitors, including Amazon and subscription boxes, are targeting Five Below's customer base, while Target and Walmart are always looking for the next big idea in retail. Meanwhile, a downturn in the economy

could make consumers think twice about buying a DIY crystal bath-fizzies kit, even if it is only \$5.

Many of Five Below's items are a cocktail of functionality and kitsch — such as light-up Bluetooth speakers, cute makeup pouches and quirky cellphone accessories. It's a shrewd approach, given that consumers don't like to spend money unnecessarily but still want to indulge, said Ran Kivetz, a professor of marketing at Columbia Business School who has studied how emotions shape consumer behavior for more than 25 years.

"Guilt is not necessarily something that people are conscious of, but it still drives their behavior," Kivetz said. "So the ability to match in the same item a sense of luxury and necessity, it helps alleviate the guilt and helps make the purchase much easier," he said. "And when the cost is already low...it's very clever merchandising on Five Below's part."

While it targets a wide variety of buyers, it's clear that Five Below's primary customer base is Gen Z, the generation starting with children born around the turn of the century. As digital natives, Gen Z is made up of savvy online shoppers who are conscious of trends and desirable brands, according to research from the National Retail Federation. Five Below's lack of specialization allows it to track all manner of fads and crazes. It was one of the first stores to pick up on crazes such as Silly Bandz, slime and fidget spinners.

"We give a sense of discovery throughout the whole store," said chief executive Joel Anderson, a former Walmart executive. "It's like T.J. Maxx for kids."

A few days before Christmas at the Market Street store, J'Nelle Stewart, a precocious 7-year-old, pinballed past towers of toys and things that sparkle. She declared her love for at least a dozen items, including DIY nail kits, face masks and a foam version of a bloody, severed finger.

"I haven't seen one of these in years!" she cried as she plunked down on a whoopee cushion. She weighed the cuteness of puppies vs. kittens in the notebook section and swooned over a poster of YouTuber Jake Paul.

"This place is everything I dream about," J'Nelle said.

fiVE BELoW® IN THE NEWS!

TimeOut

A huge Five Below is making its Manhattan debut

One of the most addicting shopping destinations is making a Manhattan debut on Nov 2.

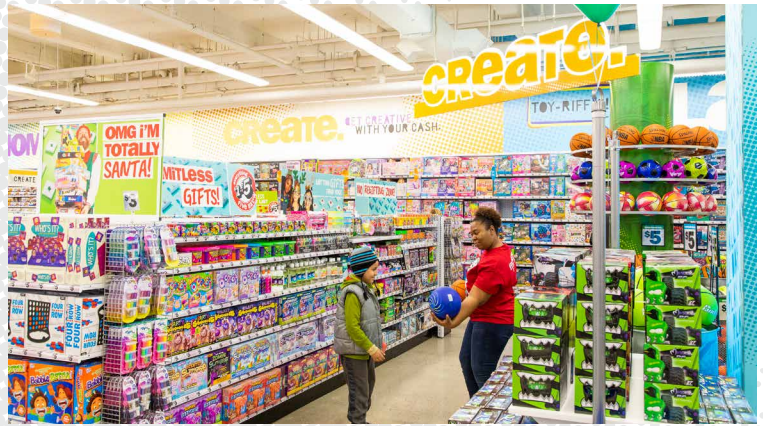
Five Below—the retail chain kids and teens adore—will open the doors to its 11,000 square-foot space just in time to kickstart the holiday season. Patrons are invited to explore budget-friendly gadgets and gizmos that are too fun to pass up—DIY slime kits, scented nail polish, cute plush toys, cell phone accessories, the list goes on and on. If you find yourself on Fifth Ave between 44th and 45th Streets, you're going to need to make a pitstop.

"Fifth Avenue has long been the gold standard for any retailer, and we could not be more thrilled to bring our exciting shopping

experience to one of the busiest blocks in the world," Joel Anderson, president and CEO of Five Below, said in a statement. "We're confident that we'll be an appealing destination to many of the thousands of people who will pass our doors every day."

What's even more appealing is the fact that it will increase its toy and gift selection in NYC and across the U.S., so you'll easily find the perfect stocking stuffers and Secret Santa gifts. There's a little something for all kiddos to love—from sports-obsessed to the nifty crafters. When the selection is \$5 and below, there's no excuse not to do a happy dance.

Who's ready to shop, NYC?!



FIVE BELOW® IN THE NEWS!

THE WALL STREET JOURNAL.

Five Below, the Amazon-Proof Store Retailer of items for \$5 or less has nearly quadrupled its locations, including a new one in Manhattan

By Suzanne Kapner, Nov. 2, 2018



A worker walks through the new Five Below store in Manhattan. Photo: Stephanie Aaronson/The Wall Street Journal

Many retailers are closing stores. Five Below Inc. FIVE +1.86% can't seem to open them fast enough.

The chain, which sells everything from Spalding basketballs to Bluetooth headphones and yoga mats for \$5 or less, might be the most successful retailer you've never heard of.

By the end of this year, Five Below's store count will have nearly quadrupled to 750 locations since its 2012 initial public offering, with its latest location opening Friday in Manhattan—the chain's first in the New York City borough.

All that growth hasn't cannibalized existing locations, which have posted sales increases in all but one of Five Below's 25 quarters as a public company. Total sales over that period have nearly tripled to \$1.28 billion. Profits are up roughly sixfold, and its stock has climbed 608% to \$120.31 through Thursday's close since the IPO.

Five Below uses a formula that has largely insulated it from competition from Amazon.com Inc. The chain keeps prices low by creating products from scratch with hundreds of suppliers around the world and sells them in an environment where children want to hang out. Its own e-commerce sales are so negligible the company doesn't break them out; shipping often costs more than the entire purchase. "Online is great when you know what you want," Five Below Chief Executive Joel Anderson said. "When you walk into one of our stores, you will discover things you didn't know you wanted. It's like a treasure hunt. We're the T.J. Maxx for kids."

At 8,000 square feet, its stores are relatively small, making it easy to wander the mazelike floor plan grouped around eight categories: sports, technology, party, candy, style, create, room and now—

the latter filled with seasonal products such as Halloween costumes or Christmas decorations.



Photo: Stephanie Aaronson/The Wall Street Journal.

Games for sale at the new Five Below store in Manhattan. The stores keep shelving no higher than 5 feet, creating a comfortable space for preteens and teenagers.

Shelving is no higher than 5 feet, creating a comfortable space for preteens and teenagers who have outgrown traditional toy stores and are Five Below's core customers. They are encouraged to bounce the basketballs, test-drive radio-controlled cars and participate in slime-making contests—anything that will help them spend their allowance money.

Five Below also has items for grown-ups, including cucumber face-masks, yoga mats, storage bins, greeting cards and vintage candy from Mike and Ike fruit-flavored chews to Goetze's Caramel Creams. Unlike other bargain stores like Dollar Tree or Family Dollar that focus on necessities such as laundry detergent and toothpaste, Five Below is the place to come to find things you didn't know you wanted, such as squeezable foam toys called "squishies" that have gone viral on YouTube. "It's like a dollar store—but more," said Steve Luvender, a 28-year-old web designer, who recently visited a Five Below near his home in Allentown, Pa., for Halloween decorations, including a shark costume for himself. "I wouldn't have searched Amazon for that, but it was fun to pick up something unexpected."

A study last year by KeyBanc Capital Markets Inc. found that a basket of 67 items was 52.6% less expensive at Five Below than on Amazon.com.

"No retailer is truly Amazon-proof, but they are in a better position than most," said Bradley Thomas, a KeyBanc managing director of equity research. "You will save money if you shop at Five Below rather than on Amazon. Most retailers can't say that."

An Amazon spokeswoman said the KeyBanc study was flawed and misleading. "We continue to offer our customers low prices and incredible deals on a vast selection of products, in addition to fast and free shipping options," she added.

When Five Below was founded in 2002 by David Schlessinger and Tom Vellios, the pioneers of the now defunct Zany Brainy toy chain, they had to come up with creative ways to keep prices low. Mr. Schlessinger left the company in 2015. Mr. Vellios remains chairman.

Spalding NBA basketballs on sale at the new Five Below store in Manhattan. One breakthrough was to ship basketballs deflated without boxes, allowing more to fit in each container, which lowered freight costs. The balls are inflated once they arrive at the store.



Photo: Stephanie Aaronson/The Wall Street Journal.

"The No. 1 thing we like is they don't get greedy," said Chuck Grom, an analyst with Gordon Haskett Research Advisors. "They could have better margins, but they take that money and put it into better products."

Keeping prices low is getting harder, because most of what Five Below sells is made in China and many of the products are subject to U.S. tariffs. The company is looking at ways to alter items to make them tariff-free, and it is considering moving some production to other countries. Mr. Anderson, a former Toys "R" Us Inc. and Walmart Inc. executive, said raising prices is a last resort.

It also is testing "Ten Below" sections in four stores that offer items such as wireless home speakers and skateboards for \$10 or less, though company executives said the move is unrelated to pricing pressure.

Mr. Anderson said he sees a huge opportunity to pick up toy sales with Toys "R" Us Inc. out of the picture this holiday season. Five Below has added 20 feet of space to the toy sections in each store and is working with major manufacturers such as Hasbro Inc. and Mattel Inc. to get fresh products.

Five Below was one of the first to spot the fidget spinners trend last year, and it was early to the make-your-own slime craze, after one of its buyers noticed that sales of Elmer's glue had shot up. (It is a key ingredient in slime.)

"Slime has been hot all year," Mr. Anderson said.