

FIVE BELOW, INC
Form 10-K
March 28, 2019

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

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended February 2, 2019

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 Number)

701 Market Street
Suite 300 Philadelphia, PA 19106
(Address of Principal Executive
Office)

19106
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class

Common Stock, \$0.01 par value
per share

Name of each exchange on which
registered

The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Exchange Act:

Title of each class

Not applicable

Name of each exchange on which
registered

Not applicable

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the securities act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company Emerging Growth Company

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

As of August 3, 2018, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of common stock (based upon the last reported sales price on The NASDAQ Global Select Market) held by non-affiliates of the registrant was approximately \$4,782,549,781.

The number of shares of the registrant's common stock, \$0.01 par value, outstanding as of March 27, 2019 was 55,798,982.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2019 Annual Meeting of Shareholders to be held on June 18, 2019 (hereinafter referred to as the "Proxy Statement") are incorporated by reference into Part III of this report.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, or Annual Report, 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,” “po” negative of these terms or other comparable terminology.

The forward-looking statements contained in this Annual Report 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 below, in Part I, Item 1A “Risk Factors,” and in Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” 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;
- the direct and indirect impact of recent and potential tariffs imposed and proposed by the United States on foreign imports, including, without limitation, the tariffs themselves, any counter-measures thereto and any indirect effects on
- consumer discretionary spending, which could increase the cost to us of certain products, lower our margins, increase our import related expenses, and reduce consumer spending for discretionary items, each of which could have a material adverse effect on our business, financial condition and results of future operations;
- dependence on a volume of traffic to our stores and website;
- 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;
- the risks of cyberattacks or other cyber incidents, such as the failure to secure customers' confidential or credit card
- information, or other private data relating to our employees or our company, including the costs associated with protection against or remediation of such incidents;
- 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;
- the costs and risks of constructing and owning real property;
- 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 costs and liabilities associated with infringement of third party 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 Annual Report 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.

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PART I

ITEM 1. BUSINESS

General

Five Below, Inc. was incorporated in Pennsylvania in January 2002. Our principal executive office is located at 701 Market Street, Suite 300, Philadelphia, PA 19106 and our telephone number is (215) 546-7909. Our corporate website address is www.fivebelow.com. The information contained on, or accessible through, our corporate website does not constitute part of this Annual Report. As used herein, “Five Below,” the “Company,” “we,” “us,” “our” or “our business” refer to Five Below, Inc. (collectively with its wholly owned subsidiary), except as expressly indicated or unless the context otherwise requires.

We purchase products in reaction to existing marketplace trends and, hence, refer to our products as “trend-right.” We use the term “dynamic” merchandise to refer to the broad range and frequently changing nature of the products we display in our stores. We use the term “power” shopping center to refer to an unenclosed shopping center with 250,000 to 750,000 square feet of gross leasable area that contains three or more “big box” retailers (large retailers with floor space over 50,000 square feet) and various smaller retailers with a common parking area shared by the retailers. We use the term “lifestyle” shopping center to refer to a shopping center or commercial development that is often located in suburban areas and combines the traditional retail functions of a shopping mall with leisure amenities oriented towards upscale consumers. We use the term “community” shopping center to refer to a shopping area designed to serve a trade area of 40,000 to 150,000 people where the lead tenant is a variety discount, junior department store and/or supermarket. We use the term “trade area” to refer to the geographic area from which the majority of a given retailer's customers come from. Trade areas vary by market based on geographic size, population density, demographics and proximity to alternative shopping opportunities.

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 2019” or “fiscal 2019” refer to the period from February 3, 2019 to February 1, 2020, which consists of a 52-week fiscal year. References to “fiscal year 2018” or “fiscal 2018” refer to the period from February 4, 2018 to February 2, 2019, which consists of 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 consists of a 53-week fiscal year. References to “fiscal year 2016” or “fiscal 2016” refer to the period from January 31, 2016 to January 28, 2017, which consists of a 52-week fiscal year. References to “fiscal year 2015” or “fiscal 2015” refer to the period from February 1, 2015 to January 30, 2016, which consists of a 52-week fiscal year. References to “fiscal year 2014” or “fiscal 2014” refer to the period from February 2, 2014 to January 31, 2015, which consists of a 52-week fiscal year. References to 2019, 2018, 2017, 2016, 2015, and 2014 are to our fiscal years unless otherwise specified.

Our Company

Five Below is a rapidly growing specialty value retailer offering a broad range of trend-right, high-quality merchandise targeted at the tween and teen customer. We offer a dynamic, edited assortment of exciting products, priced at \$5 and below, including select brands and licensed merchandise across eight worlds: Style, Room, Sports, Tech, Create, Party, Candy and Now. We believe we are transforming the shopping experience of our target demographic with a differentiated merchandising strategy and high-energy retail concept, which allows our customers to “Let Go and Have Fun.” Based on our management’s experience and industry knowledge, we believe our customer-centric, experience-first, innovative approach to retail has led to a fiercely loyal customer base and has fostered universal appeal across a variety of age groups beyond our target demographic.

We opened the first Five Below store in the greater Philadelphia area in 2002 and, since then, have been expanding across the Northeast, South, Midwest and West regions of the United States. As of February 2, 2019, we operated a total of 750 locations across 33 states. Our new store model assumes a store size of approximately 8,500 square feet and is typically located within power, community and lifestyle shopping centers across a variety of urban, suburban and semi-rural markets. We opened 125 net new stores in fiscal 2018 and plan to open approximately 145 to 150 new stores in fiscal 2019. We believe that we have the opportunity to grow our store base to more than 2,500 locations over time.

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 serve 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.

In fall 2018, we began offering an expanded product assortment with prices exceeding \$5 and up to \$10 in six of our stores on a test basis only (with such product offerings branded as "Ten Below" or "JUST WOW"). We plan on continuing to test offering exceptional value for our products to customers at prices exceeding the \$5 price point in a limited number of our stores.

We believe that our business model has resulted in strong financial performance irrespective of the economic environment:

Our comparable sales increased by 3.9% in fiscal 2018, 6.5% in fiscal 2017, and 2.0% in fiscal 2016.

We expanded our store base from 522 stores at the end of fiscal year 2016 to 750 stores at the end of fiscal year 2018, representing a compounded annual growth rate of 19.9%.

Between fiscal 2016 and 2018, our net sales increased from \$1.0 billion to \$1.6 billion, representing a compounded annual growth rate of 24.9%. Over the same period, our operating income increased from \$114.0 million to \$187.2 million, representing a compounded annual growth rate of 28.2%.

Our Competitive Strengths

We believe the following strengths differentiate Five Below from competitors and are the key drivers of our success:

Unique Focus on the Tween and Teen Customer. We target an attractive customer segment of tweens and teens with trend-right merchandise at differentiated price points of \$5 and below. We have built our concept to appeal to this customer base, which we believe to be economically influential and resilient based on our industry knowledge and experience, as well as their parents and others who shop for them. Our brand concept, merchandising strategy and store ambience work in concert to create an upbeat and vibrant retail experience that is designed to appeal to our target audience, drive traffic to our stores and website, and keep our customers engaged throughout their visits. We monitor trends in the ever-changing tween and teen markets and are able to quickly identify and respond to trends that become mainstream. Our price points enable tweens and teens to shop independently, often using their own money to make frequent purchases of items geared primarily to them and to exercise self-expression through their independent retail purchases.

Broad Assortment of Trend-Right, High-Quality Merchandise with Universal Appeal. We deliver an edited assortment of trend-right as well as everyday products within each of our category worlds that changes frequently to create a sense of anticipation and freshness, which we believe provides excitement for our customers. We have a broad range of vendors, most of which are domestically-based, which enables us to shorten response lead times, maximizes our speed to market and equips us to make more informed buying decisions. Our unique approach encourages frequent customer visits and limits the cyclical fluctuations experienced by many other specialty retailers. The breadth, depth and quality of our product mix and the diversity of our category worlds attract shoppers across a broad range of age and socio-economic demographics.

Exceptional Value Proposition for Customers. We believe we offer a clear value proposition to our customers. Our price points of \$5 and below resonate with our target demographic and with other value-oriented customers. We are able to deliver on this value proposition through sourcing products in a manner that is designed to achieve low cost, fast response and high item velocity and sell-through. We maintain a dynamic and collaborative relationship with our vendor partners that provides us with favorable access to quality merchandise at attractive prices. We also employ an opportunistic buying strategy, capitalizing on select excess inventory opportunities with our vendors. This unique and flexible sourcing strategy allows us to offer high-quality products at exceptional value across all of our category worlds.

Differentiated Shopping Experience. We believe we have created a unique and engaging in-store and online atmosphere that customers find fun and exciting. While we refresh our products frequently, we maintain a floor layout, designed with an easy-to-navigate flow and featuring sight-lines across the entire store enabling customers to easily identify our category worlds. All of our stores feature a sound system playing trend-right music throughout the shopping day. We employ novel and dynamic techniques to display our products, including distinctive merchandise

fixtures and colorful and stimulating signage. This approach makes our stores a destination, encouraging hands-on interaction with our products and conveying our value pricing. We have developed a unique culture that emanates from our employees, many of whom frequently shop at Five Below, to our customers, thereby driving a higher level of connectivity and engagement. Additionally, we believe our \$5 and below price points, coupled with our dynamic merchandising approach, create an element of discovery, driving repeat visits and customer engagement.

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Powerful and Consistent Store Economics. We have a proven store model that generates strong cash flow, consistent store-level financial results and a high level return on investment. Our stores have been successful in varying geographic regions, population densities and real estate settings and our new stores have achieved average payback periods of less than one year. We believe our robust store model, reinforced by our rigorous site selection process and in-store execution, drives the strength and consistency of our comparable sales financial results across all geographic regions and store-year classes.

Highly Experienced and Passionate Senior Management Team with Proven Track Record. Our senior management team, led by Joel Anderson, our President and Chief Executive Officer, has extensive retail experience across a broad range of disciplines, including merchandising, real estate, finance, store operations, supply chain management and information technology. Our management team drives our operating philosophy, which is based on a relentless focus on providing high-quality merchandise at exceptional value and a superior shopping experience utilizing a disciplined, low-cost operating and sourcing structure. We believe our management team is integral to our success and has positioned us well for long-term growth.

Growth Strategy

We believe we can grow our net sales and earnings by executing on the following strategies:

Grow Our Store Base. We believe there is significant opportunity to expand our store base in the United States from 750 locations as of February 2, 2019 to more than 2,500 locations within the United States over time. Based upon our strategy of store densification, we expect most of our near-term growth will occur within our existing markets, as well as new markets. This strategy allows us to benefit from enhanced brand awareness and achieve operational efficiencies. We opened 103 net new stores in fiscal 2017 and 125 net new stores in fiscal 2018, and plan to open approximately 145 to 150 new stores in fiscal 2019. Our new store model assumes approximately 8,500 square feet and is primarily in-line locations within power, community and lifestyle shopping centers across a variety of urban, suburban and semi-rural markets. We have a talented and disciplined real estate management team and a rigorous real estate site selection process. We analyze the demographics of the surrounding trade areas and the performance of adjacent retailers, as well as traffic and specific site characteristics and other variables. As of February 2, 2019, we have executed lease agreements for the opening of 89 new stores in fiscal 2019.

Drive Comparable Sales. We expect to continue generating positive comparable sales growth by continuing to hone and refine our dynamic merchandising offering and differentiated in-store shopping experience. We intend to increase our brand awareness through cost-effective marketing efforts and enthusiastic customer engagement. We believe that executing on these strategies will increase the frequency of purchases by our existing customers and attract new customers to our stores.

Increase Brand Awareness. We have a cost-effective marketing strategy designed to promote brand awareness and drive store and website traffic. Our strategy includes the use of newspaper circulars, television, digital, and local community marketing to support existing and new market entries. We leverage our growing e-mail database, mobile website and social media presence to drive brand engagement and increased store visits within existing and new markets. We believe that our digital experience is an extension of our brand and retail stores, serving as a marketing and customer engagement tool for us. Our digital experience allows us to continue to build brand awareness and expand our customer base.

Enhance Operating Margins. We believe we have further opportunities to drive margin improvement over time. A primary driver of our expected margin expansion will come from leveraging our cost structure as we continue to increase our store base and drive our average net sales per store. We intend to capitalize on opportunities across our supply chain as we grow our business and achieve further economies of scale.

Our History

The Company was incorporated in Pennsylvania in January 2002 under the name of Cheap Holdings, Inc. by David Schlessinger and Thomas Vellios, who recognized a market need for a fun and affordable shopping destination aimed at our target customer. We changed our name to Five Below, Inc. in August 2002. In July 2014, Joel Anderson joined the Five Below senior management team, and in December 2014, he was appointed Chief Executive Officer effective February 1, 2015.

Our Market Opportunity

As a result of our unique merchandise offering and value proposition, we believe we have effectively tapped the tween and teen markets. According to the U.S. Census Bureau, there were over 63 million people in the United States between the ages of 5 and 19, which represented over 20% of the U.S. population as of April 1, 2010. Based on management's experience and industry knowledge, we believe that this segment of the population has a significant amount of disposable income as the vast majority of this age group's basic needs are already met.

Our Merchandise Strategy

We offer a dynamic, edited assortment of trend-right, high-quality products, priced at \$5 or below, including select brands and licensed merchandise, targeted at the tween and teen customer. We believe we are transforming the shopping experience of our target demographic with a unique merchandising strategy and high-energy retail concept that our customers consider fun and exciting. Based on management's experience and industry knowledge, we believe our compelling value proposition and the dynamic nature of our merchandise offering has fostered universal appeal to customers across a variety of age groups beyond our target demographic.

Our typical store features in excess of 4,000 stock-keeping units, or SKUs, across a number of our category worlds including Style, Room, Sports, Tech, Create, Party, Candy and Now. We focus our merchandising strategy on maintaining core categories within our stores, but aim to generate high item velocity and sell-through to keep our assortment fresh and drive repeat visits. We monitor trends in our target demographic market, historical sales trends of current and prior products and the success of new product launches to ensure that our merchandise is relevant for our customers. We have a highly planned merchandise strategy focused on trend-right and everyday products supplemented by selected opportunistic purchases from our vendors to drive traffic and therefore offer our customers a consistently exciting shopping experience.

We believe we offer a compelling value proposition to our customers across all of our core product categories. The common element of our dynamic merchandise selection is the consistent delivery of exceptional value to the consumer, with products offered at or below the \$5 price point. Our pricing enables us to provide an extensive range of exciting products, while maintaining the attraction of a value retailer. Many of the products we sell can also be found in mall specialty stores, department stores, mass merchandisers and drug stores; however, we offer all of these products in an exciting and easy to shop retail environment at exceptional price points.

Product Mix

We organize the merchandise in our stores into the following category worlds:

Style: Consists primarily of accessories such as novelty socks, sunglasses, jewelry, scarves, gloves, hair accessories, athletic tops and bottoms and "attitude" t-shirts. Our style offering also includes products such as nail polish, lip gloss, fragrance, and branded cosmetics.

Room: Consists of items used to complete and personalize our customer's living space, including glitter lamps, posters, frames, fleece blankets, plush items, pillows, candles, incense, lighting, novelty décor and related items. We also offer storage options for the customer's room.

Sports: Consists of an assortment of sport balls, team sports merchandise and fitness accessories, including hand weights, jump ropes and gym balls. We also offer a variety of games, including name brand board games, puzzles, collectibles and toys including remote control. In the summer season, our sports offering also includes pool, beach and outdoor toys, games and accessories.

Tech: Consists of a selection of accessories for cell phones, tablets, audio and computers. The offering includes cases, chargers, headphones and other related items. We also carry a range of media products including books, video games and DVDs.

Create: We offer an assortment of craft activity kits, as well as arts and crafts supplies such as crayons, markers and stickers. We also offer trend-right items for school such as backpacks, fashion notebooks and journals, novelty pens and pencils, locker accessories as well as everyday name brand items.

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Party: Consists of party goods, decorations, gag gifts and greeting cards, as well as every day and special occasion merchandise.

Candy: Consists of branded items that appeal to tweens and teens. This category includes an assortment of classic and novelty candy bars and movie-size box candy, seasonal-related candy as well as gum and snack food. We also sell chilled drinks via coolers.

Now: Consists of seasonally-specific items used to celebrate and decorate for events such as Christmas, Easter, Halloween and St. Patrick’s Day. These products are most often placed at the front of the store.

Set forth below is data for the following groups of products – leisure, fashion and home, and party and snack. The percentage of net sales represented by each product group for each of the last three fiscal years was as follows:

| | Percentage of Net Sales | | | | | |
|------------------|-------------------------|---|-------|---|-------|---|
| | 2018 | | 2017 | | 2016 | |
| Leisure | 50.9 | % | 50.1 | % | 50.0 | % |
| Fashion and home | 30.9 | % | 31.6 | % | 31.2 | % |
| Party and snack | 18.2 | % | 18.3 | % | 18.8 | % |
| Total | 100.0 | % | 100.0 | % | 100.0 | % |

Leisure includes items such as sporting goods, games, toys, tech, books, electronic accessories, and arts and crafts. Fashion and home includes items such as personal accessories, “attitude” t-shirts, beauty offerings, home goods and storage options. Party and snack includes items such as party and seasonal goods, greeting cards, candy and other snacks, and beverages.

Our Stores

As of February 2, 2019, we operated 750 stores throughout the Northeast, South, Midwest and West regions of the United States. Our new store model assumes a store size of approximately 8,500 square feet. Our stores are primarily located in power, community and lifestyle shopping centers; approximately 4% of our stores are located in malls. The following map shows the number of stores in each of the states in which we operated and the locations of our distribution centers as of February 2, 2019.

Store Design and Layout

We present our products in a unique and engaging in-store atmosphere. We maintain a floor layout designed with an easy-to-navigate flow and featuring sight-lines across the entire store enabling customers to easily identify our category worlds. All of our stores feature a sound system playing popular music throughout the shopping day. We employ novel and dynamic techniques to display our products, including distinctive merchandise fixtures and colorful and stimulating signage, which attract customers, encourage hands-on interaction with our products and convey our value pricing. In addition to traditional perimeter and gondola shelving, racks and tables, we utilize innovative approaches such as wheelbarrows, oil drums and bins strategically placed throughout our stores. These techniques foster customer interaction with products, supporting the strong relationship we strive to develop with our customers and enhance our upbeat and vibrant shopping environment.

Each of our category worlds is strategically located within our stores in an effort to enhance the customer's shopping experience. For example, our Now offerings are located in the front of the store with the goal of catching customers' attention and being "top of mind," and specially featured value items and other key items are positioned along the center aisle. Impulse items and "dollar value" items surround the checkout areas to capture add-on purchases.

Expansion Opportunities and Site Selection

Our unique focus on the tween and teen customer is supported by our real estate strategy to locate stores in high-visibility locations. We seek to operate stores in high-visibility, high-traffic retail venues, which reinforce our brand message, heighten brand awareness and drive customer traffic.

Our strategy is to saturate markets with clusters of stores because of the considerable benefit that stores derive from market concentration. Our store model is profitable across a variety of urban, suburban and semi-rural markets and in multiple real estate venues including power, community and lifestyle shopping centers. Our retail concept works well with a large and varied group of national co-tenants that drive customer traffic.

We select store sites for new store openings based upon certain criteria including minimum population density requirements, availability of attractive lease terms, sufficient space and strong positioning within a center. Employees on our real estate team spend considerable time evaluating prospective sites before bringing a proposal to our real estate committee. Our real estate committee, which is composed of senior management including our executive officers, approves all of our locations before a lease is signed.

We believe there is a significant opportunity to expand our store base in the United States. We opened 125 net new stores in fiscal 2018 and we intend to open approximately 145 to 150 new stores in fiscal 2019 through expansion in existing markets and by entering new markets. We maintain a pipeline of real estate sites that have been approved by our real estate committee and have executed 89 leases as of February 2, 2019 for new stores in fiscal 2019. Our recent store growth is summarized in the following table:

| Period | Stores at Start of Period | Stores Opened | Stores Closed | Net Store Increase | Stores at End of Period |
|-------------|---------------------------|---------------|---------------|--------------------|-------------------------|
| Fiscal 2016 | 437 | 86 | 1 | 85 | 522 |
| Fiscal 2017 | 522 | 104 | 1 | 103 | 625 |
| Fiscal 2018 | 625 | 126 | 1 | 125 | 750 |

Opening stores within existing markets enables Five Below to benefit from enhanced brand awareness and to achieve advertising, operating and distribution efficiencies. Our targeted new store openings include additional locations in existing markets as well as expansion into new markets. In existing markets, we use a store densification strategy that promotes brand awareness and leverages marketing, operating and distribution costs. When entering new markets, we employ a store clustering strategy, opening multiple stores in a single market on the same day, enabling us to leverage marketing and pre-opening expenses and generate initial new market brand awareness.

Our store growth is supported by our new store economics, which we believe to be compelling. Our new store model assumes a store size of approximately 8,500 square feet that achieves sales of approximately \$1.8 million in the first full year of operation and an average new store cash investment of approximately \$0.3 million, including our store build-out (net of tenant allowances), inventory (net of payables) and cash pre-opening expenses. Our new store model targets an average payback period of less than one year on our initial investment.

Store Operations

Each of our stores is managed by a store manager and one or two assistant managers who oversee full-time and part-time employees within each store. Each store manager is responsible for the day-to-day operations of his or her store, including the unit's operating results, maintaining a clean and appealing store environment and the hiring, training and development of employees. We also employ district managers who are responsible for overseeing the operations of 10 to 15 stores, on average, and regional directors who are responsible for overseeing the operations of our district managers.

We are guided by a philosophy that recognizes strong sales performance and customer service, allowing us to identify and reward employees who meet our high performance standards. Store managers participate in a rewarding bonus incentive program. We also recognize individual performance through internal promotions and provide extensive opportunities for advancement.

Our employees are critical to achieving our goals, and we strive to hire talented people with high energy levels and motivation. We have well-established store operating policies and procedures and an in-store training program for new store managers, assistant managers and store associates. In addition, we have a dedicated group of training and new store opening managers who are focused on ensuring a consistent new store opening and remodel process and who leverage their extensive experience and knowledge of Five Below to train new store managers. Our customer service and store procedure training programs are designed to enable employees to assist customers in a friendly manner and to help create a positive sales-driven environment as well as teach successful operating practices and procedures.

Merchandising, Sourcing and Distribution

We have developed a disciplined approach to buying and a dynamic inventory planning and allocation process to support our merchandising strategy.

Merchandising

Our merchandising team consists of an Executive Vice President, Merchandising, who reports directly to our Chief Executive Officer, and is supported by an extensive team of merchandising employees. Our merchandising team works directly with our product development team and our central planning and allocation group to ensure a consistent delivery of products across our store base. Our Executive Vice President, Merchandising has over 30 years of experience within the retail sector.

Our product development team is led by a Senior Vice President of Business and Product Development. Our product development team works directly with our merchandising group to identify new and improved products through international sourcing. Our Senior Vice President of Business and Product Development has over 30 years of experience within the retail sector.

Sourcing

We believe we have strong sourcing capabilities developed through a dynamic and collaborative relationship with our vendor partners that provide us with favorable access to quality merchandise at attractive prices. We regularly purchase core merchandise in accordance with our key categories. We also employ an opportunistic buying strategy, capitalizing on selected excess inventory opportunities, to purchase complementary merchandise based on consumer trends, product availability and favorable economic terms.

We work with approximately 800 active vendors, with no single vendor representing more than 7% of our purchases in fiscal 2018. We sourced approximately 65% of our purchases from domestic vendors in fiscal 2018. We typically have no long-term supply agreements or exclusive arrangements with our vendors.

Distribution and Fulfillment

We distribute over 85% of our merchandise for our retail stores from our approximately 1,000,000 square foot distribution center in Pedricktown, New Jersey and our approximately 600,000 square foot distribution center in Olive Branch, Mississippi, with the remaining merchandise shipped directly from the vendor to our stores. We realize cost savings by working with our vendors to streamline and reduce packaging to diminish shipping costs.

In fiscal 2018, we commenced fulfillment operations in Pedricktown, New Jersey for our direct-to-customer e-commerce business.

We generally ship merchandise from our distribution centers to our stores between two and four times a week, depending on the season and the volume of a specific store. We use contract carriers to ship merchandise to our stores. From time to time, we augment our distribution facilities with third-party warehousing.

We continuously assess ways to maximize the productivity and efficiency of our existing distribution facilities and evaluate opportunities for additional distribution centers. In March 2019, we completed the purchase of an approximately 700,000 square foot build-to-suit distribution center in Forsyth, Georgia for approximately \$42 million, for the land and building, to support our anticipated growth. We are planning to lease or build new distribution centers over the next few years to support our growth objectives.

Marketing and Advertising

Our cost-effective marketing strategy is designed to promote brand awareness and drive store and website traffic with our target demographic, as well as other value-oriented customers. Our strategy includes the use of newspaper, television and digital advertising during peak selling seasons that highlight our brand and exceptional value proposition as well as local community marketing to support existing and new market entries. Additionally, we rely on the strong visibility and the presence of our store locations, email messaging and community fundraising to promote and further our brand image and drive traffic. Our digital experience, anchored by our mobile e-commerce website and social media presence is growing rapidly as we utilize Facebook, Instagram, YouTube and Snapchat to engage our customers with compelling digital content on a daily basis.

Our marketing team works with our merchandising team to develop novel and dynamic techniques to display our products, including distinctive merchandise fixtures and colorful and stimulating signage, which attract customers, encourage hands-on interaction with our products and convey our value pricing.

For new store openings, we seek to create community awareness and consumer excitement through a mix of print and digital advertising, public relations and community outreach promoting the grand opening and by creating an engaging grand opening event that includes contests, giveaways and signature “Five Cent” hot dogs. We also aim to execute multiple store openings in a given new market on the same day in order to leverage marketing efforts to produce maximum impact.

In addition to our marketing and advertising efforts described above, we also maintain an e-commerce website (www.fivebelow.com) and, over the last few years, our online following has grown substantially. We use both our website and social media channels to highlight our featured products, value proposition, store locations, employment opportunities, and grand openings.

Competition

We compete with a broad range of retailers including discount, mass merchandise, grocery, drug, convenience, variety and other specialty stores with both physical locations and online stores. Many of these retail companies operate stores in many of the areas where we operate, and many of them engage in extensive advertising and marketing efforts. We also compete with online retailers who do not have traditional brick and mortar locations.

The principal basis upon which we compete is by offering a dynamic, edited assortment of trend-right products, priced at \$5 or below and including select brands and licensed merchandise, targeted at the tween and teen customer. We believe we are transforming the shopping experience of our target demographic with a unique merchandising strategy and high-energy retail concept that our customers consider fun and exciting. Our success also depends in substantial part on our ability to respond quickly to trends so that we can meet the changing demands of our customers. We believe that we compare favorably relative to many of our competitors based on our merchandising strategy, edited product assortment targeted at tweens and teens, store environment, flexible real estate strategy and company culture. Nonetheless, certain of our competitors have greater financial, distribution, marketing and other resources than we do.

Trademarks and Other Intellectual Property

We own several trademarks that have been registered with the U.S. Patent and Trademark Office, including Five Below® and Five Below Hot Stuff. Cool Prices®. We also own domain names, including www.fivebelow.com, and unregistered copyrights in our website content. We attempt to obtain registration of our trademarks whenever practicable and pursue any infringement of those marks. Solely for convenience, trademarks and trade names referred

to in this document may appear without the ® or ™ symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensor to these trademarks and trade names. We also refer to product names, trademarks, trade names and service marks that are the property of other companies.

Management Information Systems

Our management information systems provide a full range of business process assistance and timely information to support our merchandising strategy, warehouse management, stores and operating and financial teams. We believe our current systems provide us with operational efficiencies, scalability, management control and timely reporting that allow us to identify and respond to merchandising and operating trends in our business. We use a combination of internal and external resources to support store point-of-sale, merchandise planning and buying, inventory management, financial reporting, real estate, human resource and administrative functions. We continuously assess ways to maximize productivity and efficiency, and evaluate opportunities to further enhance our existing systems.

Government Regulation

We are subject to labor and employment laws, laws governing advertising, privacy laws, safety regulations and other laws, including consumer protection regulations that regulate retailers and/or govern the promotion and sale of merchandise and the operation of stores and warehouse facilities. We monitor changes in these laws and believe that we are in material compliance with applicable laws.

Insurance

We maintain third-party insurance for a number of risk management activities including but not limited to workers' compensation, cyber, directors & officers, general liability, property and employee-related health care benefits. We evaluate our insurance requirements on an ongoing basis to ensure we maintain adequate levels of coverage.

Employees

As of February 2, 2019, we employed approximately 3,500 full-time and 10,400 part-time employees. Of our total employees, approximately 400 were based at our corporate headquarters in Philadelphia, Pennsylvania, approximately 500 were based at our distribution centers in Pedricktown, New Jersey and Olive Branch, Mississippi and approximately 13,000 were store employees. The number of part-time employees fluctuates depending on seasonal needs. None of our employees belong to a union or are party to any collective bargaining or similar agreement.

Seasonality

Our business is seasonal in nature with the highest level of net sales and net income generated in the fourth fiscal quarter due to the year-end holiday season and, therefore, operating results for any fiscal quarter are not necessarily indicative of results for the full fiscal year. To prepare for the holiday season, we must order and keep in stock more merchandise than we carry during other parts of the year. We expect inventory levels, along with an increase in accounts payable and accrued expenses, generally to reach their highest levels in the third and fourth fiscal quarters in anticipation of the increased net sales during the year-end holiday season. As a result of this seasonality, and generally because of variation in consumer spending habits, we experience fluctuations in net sales, net income and working capital requirements during the year.

Available Information

For more information about us, visit our website at www.fivebelow.com. The contents of our website are not part of this Annual Report on Form 10-K. Our electronic filings with the Securities and Exchange Commission (including all annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and any amendments to these reports), including the exhibits, are available, free of charge, through our website as soon as reasonably practicable after we electronically file them with, or furnish them to, the Securities and Exchange Commission.

ITEM 1A. RISK FACTORS

You should consider carefully the following risks and uncertainties when reading this Annual Report. If any of the following risks actually occurs, our business, financial condition and results of operations could be materially and adversely affected. In that event, the trading price of our common stock could decline. Although we believe that we have identified and discussed below the key risk factors affecting our business, there may be additional risks and uncertainties that are not presently known or that are not currently believed to be significant that may adversely affect our performance or financial condition.

Risks Relating to Our Business and Industry

We may not be able to successfully implement our growth strategy on a timely basis or at all, which could harm our growth and results of operations.

Our growth is dependent on our ability to open profitable new stores. We believe we have an opportunity to continue to grow our store base from 750 stores in 33 states as of February 2, 2019 to more than 2,500 locations over time.

Our ability to open profitable new stores depends on many factors, including our ability to:

- identify suitable markets and sites for new stores;
- negotiate leases with acceptable terms;
- achieve brand awareness in the new markets;
- efficiently source and distribute additional merchandise;
- expand our distribution capacity by successfully opening and operating new distribution centers;
- maintain adequate distribution capacity, information systems and other operational system capabilities;
- hire, train and retain store management and other qualified employees; and
- achieve sufficient levels of cash flow and financing to support our expansion.

Unavailability of attractive store locations, delays in the acquisition or opening of new stores, delays or costs resulting from a decrease in commercial development due to capital constraints, difficulties in staffing and operating new store locations or lack of customer acceptance of stores in new market areas may negatively impact our new store growth and the costs or the profitability associated with new stores.

Additionally, some of our new stores may be located in areas where we have little experience or a lack of brand recognition. Those markets may have different competitive conditions, market conditions, consumer tastes and discretionary spending patterns than our existing markets, which may cause these new stores to be less successful than stores in our existing markets. Other new stores may be located in areas where we have existing stores. Although we have experience in these markets, increasing the number of locations in these markets may result in inadvertent over-saturation of markets and temporarily or permanently divert customers and sales from our existing stores, thereby adversely affecting our overall financial performance.

Accordingly, we cannot assure you that we will achieve our planned growth or, even if we are able to grow our store base as planned, that any new stores will perform as planned. If we fail to successfully implement our growth strategy, we will not be able to sustain the rapid growth in sales and profits that we expect, which would likely have an adverse impact on the price of our common stock.

Any disruption in our ability to select, obtain, distribute and market merchandise attractive to customers at prices that allow us to profitably sell such merchandise could impact our business negatively.

We generally have been able to select and obtain sufficient quantities of attractive merchandise at prices that allow us to be profitable. If we are unable to continue to select products that are attractive to our customers, to obtain such products at costs that allow us to sell such products at a profit, or to market such products effectively to consumers, our sales or profitability could be affected adversely. In addition, the success of our business depends in part on our ability to anticipate, identify and respond promptly to evolving trends in demographics and consumer preferences, expectations and needs. If we are unable to quickly respond to developing trends or if the spending patterns or demographics of these markets change, and we do not timely and appropriately respond to such changes, then the demand for our products, which are discretionary, and our market share could be adversely affected. Failure to maintain attractive stores and to timely identify or effectively respond to changing consumer needs, preferences and spending patterns could adversely affect our relationship with customers, the demand for our products and our market share.

Any disruption in the supply or increase in pricing of our merchandise could negatively impact our ability to achieve anticipated operating results. The products we sell are sourced from a wide variety of domestic and international vendors. We have not experienced any difficulty in obtaining sufficient quantities of core merchandise and believe that, if one or more of our current sources of supply become unavailable, we would generally be able to obtain alternative sources without experiencing a substantial disruption of our business. However, such alternative sources could increase our merchandise costs and reduce the quality of our merchandise, and an inability to obtain alternative sources could affect our sales.

Our reliance on merchandise manufactured outside of the United States subjects us to legal, regulatory, political and economic risks. In particular, tariffs imposed and proposed by the U.S. government could increase the cost to us of certain products, lower our margins, increase our import related expenses, and reduce consumer spending on discretionary items, each of which could have a material adverse effect on our business, financial condition and results of future operations.

A significant majority of our merchandise is manufactured outside the United States, and changes in the prices and flow of these goods for any reason could have an adverse impact on our operations. The United States and other countries have occasionally proposed and enacted protectionist trade legislation, which may result in changes in tariff structures and trade policies and restrictions that could increase the cost or reduce the availability of certain merchandise. In particular, the United States has recently imposed increased tariffs on certain imports from China. On July 6, 2018, the United States government imposed a 25% tariff on a variety of imports from China and on September 17, 2018, additional products from China were imposed a 10% tariff, which rate was initially set to increase to 25% by the end of 2018. In response, China imposed a 5% to 10% tariff on certain U.S. goods. However, on December 1, 2018, the U.S. government agreed to postpone until March 1, 2019 further tariff hikes on China while the parties negotiate. On February 24, 2019, President Trump announced that the March 1, 2019 deadline would be extended to allow for negotiations to continue.

While the current tariffs only affect a limited number of the products that we currently either import from China or purchase from domestic vendors which import from China, the U.S. administration has proposed additional tariffs on a list of thousands of categories of products that may be imposed imminently and expressed a willingness for further tariffs on goods imported from China, including on additional items that we purchase. While it is too early to predict how the recently enacted, proposed and any future tariffs on items imported from China or elsewhere will impact our business, such tariffs would likely result in lower gross margins on impacted products, unless we are able to take successfully any one or more of the following mitigating actions: increase our prices, move production to countries with no or lower tariffs or away from domestic vendors who source from China or other tariff impacted countries, or alter or cease offering certain products. Any increase in pricing, alteration of products or reduced product offering could reduce the competitiveness of our products. Furthermore, any retaliatory counter-measures imposed by countries subject to such tariffs, such as China, could increase our, or our vendors', import expenses. Additionally, even if the products we import are not directly impacted by additional tariffs, the imposition of such additional tariffs on goods imported into the United States could cause increased prices for consumer goods, in general, which could have a negative impact on consumer spending for discretionary items reducing demand for our products. These direct and indirect impacts of increased tariffs or trade restrictions implemented by the United States, both individually and cumulatively, could have a material adverse effect on our business, financial condition and results of future operations.

It has also been suggested that the United States may materially modify or withdraw from some of its existing trade agreements. Any of these or other measures, if ultimately enacted, or events relating to the manufacturers of our merchandise and the countries in which they are located, some or all of which are beyond our control, can adversely affect our ability to access suitable merchandise on acceptable terms, negatively impact our operations, increase costs and lower our margins. Such events or circumstances include, but are not limited to:

- political and economic instability;
- the financial instability and labor problems of the manufacturers of our merchandise;
- the availability and cost of raw materials;
- merchandise quality or safety issues;
- changes in currency exchange rates;

- the regulatory environment in the countries in which the manufacturers of our merchandise are located;
- work stoppages or other employee rights issues;
- inflation or deflation; and
- transportation availability, costs and disruptions.

Moreover, negative press or reports about products manufactured outside the United States may sway public opinion, and thus customer confidence, away from the products sold in our stores. These and other factors affecting the manufacturers of our merchandise who are located outside of the United States and our access to our products could affect our financial performance adversely.

Our sales depend on a volume of traffic to our stores, and a reduction in traffic to, or the closing of, anchor tenants and other destination retailers in the shopping centers in which our stores are located could significantly reduce our sales and leave us with excess inventory.

Most of our stores are located in power, community and lifestyle shopping centers that benefit from the ability of “anchor” retail tenants, generally big box stores, and other destination retailers and attractions to generate sufficient levels of consumer traffic in the vicinity of our stores. Any decline in the volume of consumer traffic at shopping centers, whether because of consumer preferences to shop on the internet or at large warehouse stores, an economic slowdown, a decline in the popularity of shopping centers, the closing of anchor stores or other destination retailers or otherwise, could result in reduced sales at our stores and leave us with excess inventory, which could have a material adverse effect on our financial results or business.

An inability to attract and retain qualified employees and to control labor costs, as well as other labor issues, could adversely affect our business.

Our growth could be adversely impacted by an inability to attract, retain and motivate qualified employees at the store operations level, in distribution facilities, and at the corporate level, at costs which allow us to profitably conduct our operations. Our ability to meet our labor needs, while controlling our labor costs, is subject to many external factors, including competition for and availability of qualified employees in a given market, unemployment levels within those markets, prevailing wage rates, minimum wage laws, health and other insurance costs, and changes in employment and labor laws (including changes in the process for our employees to join a union) or other workplace regulation. For example, some jurisdictions in which we operate have historically enacted minimum wages that exceed the federal standards. To the extent our competitors increase wage rates for their employees, we will likely have to increase wage rates to stay competitive and attract and retain our employees, which would increase our labor costs. If we do not maintain competitive wages, our customer service could suffer due to declining quality of our workforce or, alternatively, our earnings could decrease if we increase our wage rates. In addition, if a significant portion of our employee base unionizes, or attempts to unionize, our labor costs could increase. Further, we believe the current pricing of our healthcare costs includes the potential future impact of the Patient Protection and Affordable Care Act, but such legislation may further cause our healthcare costs to increase. Significant costs of the Patient Protection and Affordable Care Act may occur due to provisions of the legislation being phased in over time and changes to our healthcare costs structure could have a significant negative effect on our business. In addition, our ability to pass along any increase in labor costs to our customers is constrained by our low price model.

Our new store growth is dependent upon our ability to successfully expand our distribution network capacity, and failure to achieve or sustain these plans could affect our performance adversely.

We maintain distribution centers in Pedricktown, New Jersey, Olive Branch, Mississippi and Forsyth, Georgia. We continuously assess ways to maximize the productivity and efficiency of our existing distribution facilities and evaluate opportunities for additional distribution centers. During fiscal 2015, we opened a distribution center in Pedricktown, New Jersey to support our growth objectives. We currently occupy approximately 1,000,000 square feet, having expanded from 800,000 square feet in September 2018. In March 2019, we completed the purchase of an approximately 700,000 square foot build-to-suit distribution center in Forsyth, Georgia. In addition, we are planning to lease or build new distribution centers over the next few years to support our growth objectives. Delays in opening the planned new distribution centers could adversely affect our future operations by slowing store growth, which could in turn reduce sales growth. In addition, any distribution-related construction or expansion projects entail risks which could cause delays and cost overruns, such as: shortages of materials; shortages of skilled labor or work stoppages; unforeseen construction, scheduling, engineering, environmental or geological problems; weather interference; fires or other casualty losses; and unanticipated cost increases. The completion date and ultimate cost of future projects, including opening the planned new distribution centers could differ significantly from initial expectations due to construction-related or other reasons. We cannot guarantee that any project will be completed on time or within established budgets.

In addition, the fixed costs associated with owning, operating and maintaining our distribution centers during a period of economic weakness or declining sales can result in lower operating efficiencies, financial deleverage and potential impairment in the recorded value of distribution assets. This fixed cost structure may adversely affect profitability if sales volumes decline for an extended period of time and could have material adverse effects on our financial condition, results of operations or cash flow.

Furthermore, our distribution center in Forsyth, Georgia subjects us to the risks of owning real property, which include, but are not limited to:

- the possibility of environmental contamination and the costs associated with remediating any environmental problems;
- adverse changes in the value of this property, and any future properties we may own, due to interest rate changes, changes in the neighborhood in which the property is located, or other factors;
- the possible need for structural improvements in order to comply with zoning, seismic and other legal or regulatory requirements;
- the potential disruption of our business and operations arising from or connected with a relocation due to moving to or renovating the facility;
- increased cash commitments for improvements to the building or the property, or both;
- increased operating expenses for the buildings or the property, or both; and
- the risk of financial loss in excess of amounts covered by insurance, or uninsured risks, such as the loss caused by damage to the buildings as a result of earthquakes, floods and/or other natural disasters.

A significant disruption to our distribution network or to the timely receipt of inventory could adversely impact sales or increase our transportation costs, which would decrease our profits.

Because most of our products are distributed from our distribution centers, the unexpected loss of any one of our distribution centers, due to natural disaster or otherwise, would materially affect our operations. We also rely upon independent third-party transportation to provide goods to our stores in a timely and cost-effective manner, through deliveries to our distribution centers from vendors and then from the distribution centers or direct ship vendors to our stores. Our use of outside delivery services for shipments is subject to risks outside of our control and any disruption, unanticipated expense or operational failure related to this process could affect store operations negatively. For example, unexpected delivery delays or increases in transportation costs (including through increased fuel costs or a decrease in transportation capacity for overseas shipments or resulting from labor shortages or work stoppages) could significantly decrease our ability to generate sales and earn profits. If we change shipping companies, we could face logistical difficulties that could adversely impact deliveries and we would incur costs and expend resources in connection with such change. Moreover, we may not be able to obtain terms as favorable as those received from the independent third-party transportation providers we currently use, which would increase our costs. Additionally, long-term disruptions to the United States and international transportation infrastructure from wars, political unrest, terrorism, natural disasters, governmental budget constraints and other significant events that could lead to delays or interruptions of service could adversely affect our business. As we seek to expand our operation through the implementation of our online retail capabilities, we may face increased or unexpected demands on distribution center operations, as well as new demands on our distribution network.

Extreme weather conditions in the areas in which our stores are located could negatively affect our business and results of operations.

Extreme weather conditions in the areas in which our stores are located could negatively affect our business and results of operations. We have a significant number of stores in the Northeastern and Midwestern regions of the United States, which are prone to inclement weather conditions, as well as severe storms. Such inclement weather could have a significant impact on consumer behavior, travel and store traffic patterns, as well as our ability to operate our stores. For example, frequent or unusually heavy snowfall, ice storms, rainstorms or other extreme weather conditions over a prolonged period could make it difficult for our customers to travel to our stores and thereby reduce our sales and profitability. In addition, we typically generate higher revenues and gross margins during our fourth fiscal quarter, which includes the year-end holiday season. If weather conditions are not favorable during these periods, our operating results and cash flow from operations could be adversely affected.

If we are unable to secure our customers' confidential or credit card information, or other private data relating to our employees or our Company, we could be subject to negative publicity, costly government enforcement actions or private litigation, which could damage our business reputation and adversely affect our financial results.

As with other companies, we are periodically subject to cyberattacks. Cyberattacks and other cyber incidents are occurring more frequently, are constantly evolving in nature, are becoming more sophisticated and are being made by groups and individuals (including criminal hackers, hacktivists, state-sponsored institutions, terrorist organizations and individuals or groups participating in organized crime) with a wide range of expertise and motives (including monetization of corporate, payment or other internal or personal data, theft of trade secrets and intellectual property for competitive advantage and leverage for political, social, economic and environmental reasons). Such cyberattacks and cyber incidents can take many forms including cyber extortion, denial of service, social engineering, such as impersonation attempts to fraudulently induce employees or others to disclose information or unwittingly provide access to systems or data, introduction of viruses or malware, such as ransomware through phishing emails, website defacement or theft of passwords and other credentials. Although we may incur significant costs in protecting against or remediating cyberattacks or other cyber incidents, no cyberattack or other cyber incident has, to our knowledge, had a material adverse effect on our business, financial condition or results of operations to date.

The protection of our customer, employee and company data is critical to us. The regulatory environment surrounding information security and privacy is increasingly demanding, with the frequent imposition of new and constantly changing requirements that affect our business. In addition, customers have a high expectation that we will adequately protect their personal information from cyberattack or other security breaches. We have procedures and technology in place designed to safeguard our customers' debit and credit card and other personal information, our employees' private data and company records, intellectual property and other confidential information, and we continue to devote significant resources to network security, backup and disaster recovery, and other security measures, including training, to protect our systems and data. Nevertheless, these security measures cannot provide absolute security or guarantee that we will be successful in preventing or responding to every such breach or disruption, including through the intentional or negligent actions of our employees, business associates or third parties. As a result, unauthorized parties may obtain access to our data systems and misappropriate customer data and company confidential information.

There can be no assurance that advances in computer capabilities, new discoveries in the field of cryptography or other developments will prevent the compromise of our customer transaction processing capabilities and personal data. Furthermore, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If any such compromise of our security or the security of information residing with our business associates or third parties were to occur, we could be exposed to negative publicity, government enforcement actions, card issuer fines and/or penalties, private litigation or costly response measures. In addition, our reputation within the business community and with our customers may be affected, which could result in our customers discontinuing the use of debit or credit cards in our stores, or not shopping in our stores altogether. This could cause us to lose market share to our competitors and could have an adverse effect on our financial results.

We are subject to customer payment-related risks that could increase operating costs or exposure to fraud or theft, subject us to potential liability and potentially disrupt our business.

We accept payments using a variety of methods, including cash, credit and debit cards and gift cards. Acceptance of these payment options subjects us to rules, regulations, contractual obligations and compliance requirements, including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. Any inability to comply with such requirements may subject us to increased risk of liability for fraudulent transactions and may adversely affect our business and operating results.

For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, and other forms of electronic payment. If these companies become unable to provide these services to us, or if their systems are compromised, it could potentially disrupt our business. The payment methods that we offer also subject us to potential fraud and theft by criminals, who are becoming increasingly more sophisticated, seeking to obtain unauthorized access to or exploit weaknesses that may exist in the payment systems. If we fail to comply with applicable rules or requirements for the payment methods we accept, or if payment-related data is compromised due to a breach or misuse of data, we may be liable for costs incurred by payment card issuing banks and other third parties or subject to fines and higher transaction fees, or our ability to accept or facilitate certain types of payments may be impaired. In addition, our customers could lose confidence in certain payment types, which may result in a shift to other payment types or potential changes to our payment systems that may result in higher costs. As a result, our business and operating results could be adversely affected.

Our growth from existing stores is dependent upon our ability to increase sales and improve the efficiencies, costs and effectiveness of our operations, and failure to achieve or sustain these plans could affect our performance adversely. Increases in sales in existing stores are dependent on factors such as competition, including from online retailers, merchandise selection, store operations and customer satisfaction. If we fail to realize our goals of successfully managing our store operations and increasing our customer retention and recruitment levels, our sales may not increase and our growth may be impacted adversely.

Our success depends on our executive officers, senior management, district, store, and distribution center managers, and other key personnel. If we lose our executive officers, senior management, district, store, and distribution center managers, or any other key personnel, or are unable to hire additional qualified personnel, our business could be harmed.

Our future success depends to a significant degree on the skills, experience and efforts of our executive officers, senior management, district, store, and distribution center managers, and other key personnel, including Joel Anderson, our President and Chief Executive Officer. The loss of the services of any of our executive officers, senior management, district, store, and distribution center managers, or other key personnel could have an adverse effect on our operations. Competition for skilled and experienced management in the retail industry is intense, and our future success will also depend on our ability to attract, retain and motivate qualified personnel, as a failure to attract these key personnel could have an adverse effect on our operations. We do not currently maintain key person life insurance policies with respect to our executive officers or key personnel.

Our profitability and cash flows from operations may be negatively affected if we are not successful in managing our inventory balances and inventory shrinkage.

Our inventory balance represented approximately 26% of our total assets as of February 2, 2019. Efficient inventory management is a key component of our business success and profitability. To be successful, we must maintain sufficient inventory levels and an appropriate product mix to meet our customers' demands without allowing those levels to increase to such an extent that the costs to store and hold the goods unduly impacts our financial results. If our buying decisions do not accurately predict customer trends or purchasing actions, or if our expectations about customer spending levels are inaccurate, we may have to take unanticipated markdowns to dispose of excess inventory, which also can adversely impact our financial results. We also experience inventory shrinkage, and we cannot assure you that incidences of inventory loss and theft will stay at acceptable levels or decrease in the future, or that the measures we are taking will effectively address the problem of inventory shrinkage. We continue to focus on ways to reduce these risks, but we cannot assure you that we will be successful in our inventory management. If we are not successful in managing our inventory balances, our profitability and cash flows from operations may be negatively affected.

Our business requires that we lease substantial amounts of space and there can be no assurance that we will be able to continue to lease space on terms as favorable as the leases negotiated in the past.

Currently, we lease all of our store locations, as well as our corporate headquarters and distribution facilities in Pedricktown, New Jersey and Olive Branch, Mississippi (and own our distribution center in Forsyth, Georgia). Our stores are leased from third parties, with typical initial lease terms of ten years. Many of our lease agreements also have additional five-year renewal options. Historically, we have been able to negotiate terms that fit within our economic model and that we believe are favorable; however, there is no guarantee that we will be able to continue to negotiate such terms. Consolidation in the commercial retail real estate market could affect our ability to successfully negotiate favorable rental terms for our stores in the future. Should significant consolidation occur, a large proportion of our store base could be concentrated with one or a few landlords that would then be in a position to dictate unfavorable terms to us due to their significant negotiating leverage. Many of our lease agreements have defined escalating rent provisions over the initial term and any extensions. Increases in our occupancy costs and difficulty in identifying economically suitable new store locations could have significant negative consequences, which include: requiring that a greater portion of our available cash be applied to pay our rental obligations, thus reducing cash available for other purposes and reducing our profitability;

increasing our vulnerability to general adverse economic and industry conditions; and

limiting our flexibility in planning for, or reacting to changes in, our business or in the industry in which we compete.

We depend on cash flow from operations to pay our lease expenses and to fulfill our other cash needs. If our business does not generate sufficient cash flow from operating activities to fund these expenses and needs and sufficient funds are not otherwise available to us, we may not be able to service our lease expenses, grow our business, respond to competitive challenges or fund our other liquidity and capital needs, which could harm our business. If an existing or future store is not profitable, and we decide to close it, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term.

Moreover, even if a lease has an early cancellation clause, we may not satisfy the contractual requirements for early cancellation under that lease. In addition, if we are not able to enter into new leases or renew existing leases on terms acceptable to us, this could have an adverse effect on our results of operations.

Operational difficulties, including those associated with our ability to either lease or build and operate our distribution centers, could adversely impact our business.

We maintain a network of distribution centers and are planning to lease or build new distribution centers over the next few years to support our growth objectives. Delays in opening these new distribution centers could adversely affect our future financial performance by slowing store growth, which may in turn reduce revenue growth, or by increasing transportation costs. In addition, distribution center-related construction entails risks that could cause delays and cost overruns, such as: shortages of materials or skilled labor; work stoppages; unforeseen construction, scheduling, engineering, environmental or geological problems; weather interference; fires or other casualty losses; and unanticipated cost increases. The completion date and ultimate cost of these projects could differ significantly from initial expectations due to construction-related or other reasons. We cannot guarantee that these distribution centers or any future operational projects will be completed on time or within established budgets. Additionally, potential ownership of these facilities and of additional facilities which we may lease, acquire, build and own in the future, entails risks of our ability to comply with regulations restricting the construction and operation of these facilities, as well as local community actions opposed to the location of our facilities at specific sites and the adoption of local laws restricting our operations and environmental regulations, which may impact our ability to find suitable locations, and increase the cost of sites and of constructing, leasing and operating our facilities. We also may have difficulty negotiating real estate purchase agreements or leases on acceptable terms. Failure to manage these and other similar factors effectively may affect our ability to timely build or lease new facilities, which could have a material adverse effect on our future growth and profitability.

We operate in a competitive environment and, as a result, we may not be able to compete effectively or maintain or increase our sales, market shares or margins.

We operate in a highly competitive retail environment with numerous competitors, including online retailers, some of which have greater resources or better brand recognition than we do. We compete with respect to customers, price, store location, merchandise quality and supply, assortment and presentation, in-stock consistency, customer service and employees. This competitive environment subjects us to various risks, including the ability to provide quality, trend-right merchandise to our customers at competitive prices that allow us to maintain our profitability. Because of our low price model, we may have limited ability to increase prices in response to increased costs without losing competitive position which may adversely affect our margins and financial performance. In addition, price reductions by our competitors may result in the reduction of our prices and a corresponding reduction in our profitability.

Accordingly, we may face periods of intense competition in the future, which could have a material adverse effect on our profitability and results of operations.

Consolidation among retailers, changes in pricing of merchandise or offerings of other services by competitors could have a negative impact on the relative attractiveness of our stores to consumers. We do not possess exclusive rights to many of the elements that comprise our in-store experience and product offerings. Our competitors may seek to copy our business strategy and in-store experience, which could result in a reduction of any competitive advantage or special appeal that we might possess. In addition, most of our products are sold to us on a non-exclusive basis. As a result, our current and future competitors may be able to duplicate or improve on some or all of our in-store experience or product offerings that we believe are important in differentiating our stores and our customers' shopping experience. If our competitors were to duplicate or improve on some or all of our in-store experience or product offerings, our competitive position and our business could suffer. Our ability to provide quality, trend-right products at attractive, competitive prices could be impacted by various actions of our competitors that are beyond our control.

Our profitability is vulnerable to inflation, cost increases, wage rate increases and energy prices.

Future increases in costs such as the cost of merchandise, wage rates, shipping rates, freight costs, fuel costs and store occupancy costs may reduce our profitability, particularly given our \$5 and below pricing model. These cost increases may be the result of inflationary pressures that could further reduce our sales or profitability. Increases in other operating costs, including changes in energy prices, transportation costs, wage rates and lease and utility costs, may increase our cost of goods sold or operating expenses. In addition, because our expenses relating to wages are significant, any unfavorable changes in labor costs could negatively affect our operational results, financial position, and cash flows. Our low price model and competitive pressures in our industry may have the effect of inhibiting our ability to reflect these increased costs in the prices of our products and therefore reduce our profitability.

Our business is seasonal, and adverse events during the holiday season could impact our operating results negatively. Our business is seasonal, with the highest percentage of sales (approximately 40% of total annual sales over the last two fiscal years) occurring during the fourth fiscal quarter (November, December and January), which includes the year-end holiday season. This increased percentage of net sales has historically resulted in the highest percentages of net income during the fourth fiscal quarter. We purchase substantial amounts of inventory in the end of the third fiscal quarter (October) and beginning of the fourth fiscal quarter (November and December) and incur higher shipping costs and higher payroll costs in anticipation of the increased sales activity during these time periods. Adverse events, such as inclement or unusual weather, deteriorating economic conditions, higher unemployment, increased wage rates, higher gas prices or public transportation disruptions could result in lower-than-planned sales during the holiday season which may lead to unanticipated markdowns. Since we rely on third parties for transportation and use third-party warehouses when we build up inventory, a number of these factors are outside of our control. An unsuccessful fourth quarter, or holiday season, will have a substantial negative impact on our financial condition and results of operations for the entire fiscal year.

We may not be successful in implementing our expansion into online retail and if we are successful, we will face new risks and challenges, which could adversely affect our results of operations.

In August 2016, we commenced selling merchandise on the internet, through our fivebelow.com e-commerce website. Our ability to successfully execute our e-commerce strategy may suffer if we are unable to establish an effective online presence and sell our products in a cost-efficient manner while maintaining our \$5 and below price point.

Because we are in the process of developing our online sales platform, we may not be able to compete as effectively with seasoned online retailers who have a known online presence, well established e-commerce distribution networks and online sales platforms, and more resources than we do.

In addition, if we are successful, we will encounter risks and difficulties frequently experienced by internet-based businesses, including risks related to our ability to attract and retain customers on a cost-effective basis and our ability to operate, support, expand and develop our internet operations, website and software and other related operational systems. Although we believe that our participation in both e-commerce and physical store sales will be a distinct advantage for us due to synergies, the potential for new customers and increased brand recognition nationwide in markets where we do not yet have stores, supporting product offerings through both of these channels could create issues that have the potential to adversely affect our results of operations. For example, if our e-commerce business successfully grows, it may do so in part by attracting existing customers, rather than new customers, who choose to purchase products from us online rather than from our physical stores, thereby reducing the financial performance of our stores. In addition, selling products through the internet exposes us to the potential for fraud associated with “card-not-present” credit card transactions that does not exist for physical store sales. Criminals are using increasingly sophisticated methods to engage in illegal activities such as unauthorized use of credit or debit cards and bank account information. Requirements relating to consumer authentication and fraud detection are more complex for online sales than for physical store sales. We may be denied the revenues associated with orders resulting from the unauthorized use of a cardholder’s card number in an illegal activity even if the associated financial institution approved payment of the orders. As we develop our e-commerce business, the impact of attracting existing rather than new customers, of the increased costs associated with the technology infrastructure and distribution networks, and of opening up our channels to increased internet competition could have a material adverse impact on our business, financial condition, profitability and cash flows, including future growth.

Material damage to, or interruptions to, or the inability to upgrade or expand, our technology systems as a result of external factors, staffing shortages or difficulties in updating our existing technology or developing or implementing new technology could have a material adverse effect on our business or results of operations.

We depend on a variety of information technology systems for the efficient functioning of our business. Such systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches and natural disasters. Damage or interruption to these systems may require a significant investment to fix or replace them, and we may suffer interruptions in our operations in the interim. Any material interruptions may have a material adverse effect on our business or results of operations.

We are continuing to expand, upgrade and develop our information technology capabilities, including our point-of-sale system. If we are unable to successfully upgrade or expand our technological capabilities, including our point-of-sale system, we may not be able to take advantage of market opportunities, manage our costs and transactional data effectively, satisfy customer requirements, execute our business plan or respond to competitive pressures. In addition, costs and potential problems and interruptions associated with the implementation of new or upgraded systems and technology, or with maintenance or adequate support of existing systems, could also disrupt or reduce the efficiency of our operations.

We also rely heavily on our information technology staff. Failure to meet these staffing needs may negatively affect our ability to fulfill our technology initiatives while continuing to provide maintenance on existing systems. We rely on certain vendors to maintain and periodically upgrade many of these systems so that they can continue to support our business. The software programs supporting many of our systems were licensed to us by independent software developers. The inability of these developers or us to continue to maintain and upgrade these information systems and software programs would disrupt or reduce the efficiency of our operations if we are unable to convert to alternate systems in an efficient and timely manner.

Failure to maintain adequate financial and management processes and controls could lead to errors in our financial reporting, which could harm our business and cause a decline in our stock price.

Reporting obligations as a public company and our anticipated growth are likely to place a considerable strain on our financial and management systems, processes and controls, as well as on our employees. In addition, as a public company, we are required to document and test our internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 so that our management can certify the effectiveness of our internal controls and our independent registered public accounting firm can render an opinion on the effectiveness of our internal control over financial reporting. As a result, we have incurred, and may continue to incur, substantial expenses to test our systems, to make any necessary improvements, and to hire additional employees. As of February 2, 2019, our internal control over financial reporting was effective using “Internal Control - Integrated Framework (2013)” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO); however, there can be no assurance that our internal control over financial reporting will be effective in future years. If our management is unable to certify the effectiveness of our internal controls or if our independent registered public accounting firm cannot render an opinion on the effectiveness of our internal control over financial reporting, or if material weaknesses in our internal controls are identified, we could be subject to regulatory scrutiny and a loss of public confidence, which could harm our business and cause a decline in our stock price. In addition, if we do not maintain adequate financial and management personnel, processes and controls, we may not be able to accurately report our financial performance on a timely basis, which could cause a decline in our stock price and harm our ability to raise capital. Failure to accurately report our financial performance on a timely basis could also jeopardize our continued listing on The NASDAQ Global Select Market or any other stock exchange on which our common stock may be listed. Delisting of our common stock on any exchange could reduce the liquidity of the market for our common stock, which could reduce the price of our stock and increase the volatility of our stock price.

We are in the process of implementing a new enterprise resource planning system. Complications with the design or implementation of this system could adversely impact our business and operations and the implementation of this system could cause a financial statement error not to be detected.

We are in the process of a multi-year implementation of a new enterprise resource planning system (“ERP”). The ERP is designed to enhance functionality and provide timely information to the company's management team related to the operation of the business. The ERP implementation process has required, and likely will continue to require the investment of significant human and financial resources. We may not be able to successfully implement the ERP without experiencing delays, increased costs and other difficulties. If we are unable to successfully design and implement the new ERP system as planned, our financial position, results of operations and cash flows could be negatively impacted. The possibility exists that the migration to a new ERP system could adversely affect the effectiveness of our internal controls over financial reporting.

We are exposed to the risk of natural disasters, adverse weather conditions, pandemic outbreaks, global political events, war and terrorism that could disrupt business and result in lower sales, increased operating costs and capital expenditures.

Our headquarters, store locations and distribution centers, as well as certain of our vendors and customers, are located in areas which have been and could be subject to natural disasters such as floods, hurricanes, tornadoes, fires or earthquakes. Adverse weather conditions or other extreme changes in the weather, including resulting electrical and technological failures, may disrupt our business and may adversely affect our ability to sell and distribute products. For example, as a result of Superstorm Sandy in October 2012, we experienced closures in the majority of our stores open at that time. In addition, we operate in markets that may be susceptible to pandemic outbreaks or terrorist acts, and our operations may be affected by disruptive global political events, such as civil unrest in countries in which our vendors are located or products are manufactured. Our business may be harmed if our ability to sell and distribute products is impacted by any such events, any of which could influence customer trends and purchases and may negatively impact our net sales, properties or operations. Such events could result in physical damage to one or more of our properties, the temporary closure of some or all of our stores or distribution centers, the temporary lack of an adequate work force in a market, temporary or long-term disruption in the transport of goods, decreases in transportation capacity, increases in transportation costs, delay in the delivery of goods to our distribution centers or stores, disruption of our technology support or information systems, or fuel shortages or dramatic increases in fuel

prices, which increase the cost of doing business. These events also can have indirect consequences such as increases in the costs of insurance if they result in significant loss of property or other insurable damage. Any of these factors, or combination thereof, could adversely affect our operations.

Changes to federal, state or provincial income tax legislation could have a material adverse effect on our business and results of operations.

From time to time, new tax legislation is adopted by the federal government and various states or other regulatory bodies. Significant changes in tax legislation could adversely affect our business or results of operations in a material way. On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "TCJA"). The changes included in the TCJA are broad and complex. The final transition impacts of the TCJA may differ from the estimates provided elsewhere in this report, possibly materially, due to, among other things, changes in interpretations of the TCJA, any legislative action to address questions that arise because of the TCJA, any changes in accounting standards for income taxes or related interpretations in response to the TCJA, or any updates or changes to estimates we have utilized to calculate the transition impacts, including impacts from changes to current year earnings estimates. As these and other tax laws and related regulations change, our financial results could be materially impacted. Given the unpredictability of possible changes and their potential interdependency, it is very difficult to assess whether the overall effect of such potential tax changes would be cumulatively positive or negative for our earnings and cash flow, but such changes could adversely impact our financial results.

Current economic conditions and other economic factors could adversely impact our financial performance and other aspects of our business in various respects.

Weakness in the U.S. economy or other economic factors affecting disposable consumer income, such as employment levels, inflation, business conditions, fuel and energy costs, natural disasters, terrorist activities, consumer debt levels, lack of available credit, interest rates, tax rates and reform, and erosion in consumer confidence may affect our business adversely. Such factors could reduce overall consumer spending, and discretionary spending in particular, or cause customers to shift their spending to products other than those sold by us or to products sold by us that are less profitable than other product choices, all of which could result in lower net sales, decreases in inventory turnover or a reduction in profitability due to lower margins. We have limited or no ability to control many of these factors. Global economic uncertainty, the impact of recessions and the potential for failures or realignments of financial institutions and the related impact on available credit may impact us, our vendors and other business partners, our landlords, our customers, our service providers and our operations in an adverse manner. In addition, economic downturns may make it difficult for us to accurately forecast future demand trends, which could cause us to purchase excess inventories, resulting in increases in our inventory carrying cost, or insufficient inventories, resulting in our inability to satisfy our customer demand and potential loss of market share.

Changes in state or federal legislation or regulations, or becoming subject to new regulations as our operations expand, could increase our cost of doing business.

Our business is subject to numerous federal, state and local laws and regulations. The current political environment, financial reform legislation, regulatory reform and stockholder activism may result in substantial new regulations and disclosure obligations and/or changes in the interpretation of existing laws and regulations, which may lead to additional compliance costs as well as the diversion of our management's time and attention from strategic initiatives. In addition, changes in safety and quality requirements related to products and food (including changes in labeling or disclosure requirements), federal or state wage requirements, employee rights (including changes in the process for our employees to join a union), health care, social welfare or entitlement programs such as health insurance, paid leave programs, or other changes in workplace regulation or tax laws could adversely impact our ability to achieve our financial targets. Changes in other regulatory areas, such as consumer credit, privacy and information security, or environmental regulation may result in significant added expenses or may require extensive system and operating changes that may be difficult to implement and/or could materially increase our costs of doing business. Untimely compliance or noncompliance with applicable laws and regulations may subject us to legal risk, including government enforcement action, significant fines and penalties and class action litigation, as well as reputational damage, which could adversely affect our results of operations.

In addition, the expansion of our operations into California requires us to comply with a number of additional regulations. For example, California currently enforces legislation commonly referred to as "Proposition 65" that requires that "clear and reasonable" warnings be given to consumers who are exposed to chemicals known to the State of California to cause cancer or reproductive toxicity. Although we will seek to comply with the requirements of

Proposition 65, there can be no assurance that we will not be adversely affected by litigation or other actions relating to Proposition 65 or future legislation that is similar or related thereto. Also, the Transparency in Supply Chains Act of 2010 in California requires us to audit our vendors with respect to risks of human trafficking and slavery and mitigate these risks in our operations. Any failure to disclose issues or other non-compliance could subject us to action by the California Attorney General or other regulatory authorities. Increased compliance costs associated with operating in California could adversely affect our business, financial condition and results of operations.

Changes in accounting standards could significantly affect our results of operations and the presentation of those results.

Changes in accounting standards, including new interpretations and applications of accounting standards, may have adverse effects on our financial condition, results of operations, and liquidity. The Financial Accounting Standards Board ("FASB") have issued and/or adopted new pronouncements that proposes numerous significant changes to current accounting standards. These new standards could significantly change the presentation of financial information and our results of operations. Additionally, the new standards may require us to make systems and other changes that increase our operating costs. Specifically, implementing the new accounting standards related to leases required us to make significant changes to our lease management system.

For example, in February 2016, the FASB issued ASU 2016-02, "Leases." ASU 2016-02, which requires, among other things, that lease arrangements longer than 12 months result in an entity recognizing an asset and a liability. We established a cross-functional team to implement the standard in 2019. This included implementation of a leasing software solution and certain changes to our business processes, systems and controls. We expect that the adoption of this standard will result in a significant increase in total assets and total liabilities on our balance sheet given that we have a significant number of leases for our stores and such increase could significantly affect our results of operations. Our current insurance programs may expose us to unexpected costs and negatively affect our financial performance. Our insurance coverage is subject to deductibles, limits of liability and similar provisions that we believe are prudent based on our overall operations. We may incur certain types of losses that we cannot insure or which we believe are not economically reasonable to insure, such as losses due to acts of war, employee and certain other crime, and some natural disasters. If we incur these losses and they are material, our business could suffer. Certain material events may result in sizable losses for the insurance industry and adversely impact the availability of adequate insurance coverage or result in excessive premium increases. To offset negative cost trends in the insurance market, we may elect to self-insure, accept higher deductibles or reduce the amount of coverage in response to these market changes. In addition, because of ongoing changes in healthcare law, among other things, we may experience an increase in participation in our group health insurance programs, which may lead to a greater number of medical claims. If we experience a greater number of these losses than we anticipate, it could have a material adverse effect on our business, financial condition and results of operations.

Litigation may adversely affect our business, financial condition, results of operations or liquidity.

Our business is subject to the risk of litigation by employees, consumers, vendors, competitors, intellectual property rights holders, shareholders, government agencies and others through private actions, class actions, administrative proceedings, regulatory actions or other litigation. For example, we and certain of our current and former officers had been parties to a securities class action lawsuit against us, which was dismissed. The outcome of litigation, particularly class action lawsuits, regulatory actions and intellectual property claims, is difficult to assess or quantify. Plaintiffs in these types of lawsuits may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to these lawsuits may remain unknown for substantial periods of time. In addition, certain of these lawsuits, if decided against us or settled by us, may result in liability material to our consolidated financial statements as a whole or may negatively affect our operating results if changes to our business operation are required. The cost to defend litigation may be significant. There also may be adverse publicity associated with litigation that could negatively affect customer perception of our business, regardless of whether the allegations are valid or whether we are ultimately found liable. As a result, litigation may adversely affect our business, financial condition, results of operations or liquidity.

If we are unable to enforce our intellectual property rights, if we are accused of infringing a third party's intellectual property rights, or if the merchandise we purchase from brand partners is alleged to have infringed a third party's intellectual property rights, our business or results of operations may be adversely affected.

Our future success and competitive position depend in part on our ability to maintain and protect our brand. We currently own various intellectual property rights in the United States that differentiate us from our competitors, including our trademarks, such as the "Five Below®," "Ten Below®" and "Five Below Hot Stuff. Cool Prices®" marks. We also own domain names, including www.fivebelow.com, and unregistered copyrights in our website content. We currently rely on a combination of copyright, trademark, trade dress and unfair competition laws to establish and protect our intellectual property and other proprietary rights, but the steps we take to protect such rights may be

inadequate to prevent infringement of our trademarks and proprietary rights by others. Such unauthorized use of our trademarks, trade secrets, or other proprietary rights may cause significant damage to our brands and have an adverse effect on our business. The loss or reduction of any of our significant intellectual property or proprietary rights could have an adverse effect on our business.

Additionally, third parties may assert claims against us alleging infringement, misappropriation or other violations of their intellectual property or other proprietary rights, whether or not the claims have merit. Such claims could be time consuming and expensive to defend, may divert management's attention and resources, and could harm our brand image. Defending against any such claims could have an adverse effect on our business or results of operations and cause us to incur significant litigation costs and expenses. In addition, resolution of such claims may require us to pay substantial damages with respect to past sales and to cease using the relevant intellectual property or other rights and to cease selling the allegedly infringing products, which in turn would result in our loss of the revenues and profits associated with the ongoing sale of such products, which could have a material adverse effect on our financial results. Alternatively, with respect to any third party intellectual property that we use or wish to use in our business (whether or not asserted against us in litigation), we could be required to license the applicable intellectual property rights from third parties, and we may not be able to enter into licensing or other arrangements with the owner of such intellectual property at a reasonable cost or on reasonable terms.

We purchase merchandise from vendors that may be subject to copyrights or patents, or that may otherwise incorporate protected intellectual property. We do not manufacture any of the merchandise we purchase from our vendors for sale to our customers and we do not routinely independently investigate whether our manufacturing partners hold intellectual property rights to merchandise that they are manufacturing or distributing. As a result, we rely upon the vendors' representations and indemnifications set forth in our purchase orders and supplier agreements concerning their right to sell us the products that we purchase from them. If a third party claims to have rights with respect to merchandise we purchased from a vendor, or if we acquire unlicensed merchandise, we could be required to remove such merchandise from our stores, resulting in our loss of the revenues and profits associated with the ongoing sale of such products. In addition, we could incur costs associated with destruction of such merchandise if the vendor is unwilling or unable to reimburse us, and be subject to liability under various civil and criminal causes of action, including actions to recover unpaid royalties and other damages and injunctions. Although our purchase orders and agreements with vendors generally require the vendor to indemnify us against such claims, a vendor may not have the financial resources to defend itself or us against such claims, in which case we may have to pay the costs and expenses associated with defending such claims. Any of these results could harm our brand image and have a material adverse effect on our financial condition, cash flows and results of operations as well as our growth.

Product and food safety claims and the effects of legislation and regulations on product safety and quality and food safety and quality could affect our sales and results of operations adversely.

We may be subject to product liability claims from customers or actions brought or penalties assessed by government agencies relating to products, including food products that are recalled, defective or otherwise alleged to be harmful. Such claims may result from tampering by unauthorized third parties, product contamination or spoilage, including the presence of foreign objects, substances, chemicals, other agents, or residues introduced during the growing, storage, handling and transportation phases. All of our vendors and their products are contractually required to comply with applicable product and food safety laws. We generally seek contractual indemnification and insurance coverage from our vendors. However, if we do not have adequate contractual indemnification and/or insurance available, such claims could have a material adverse effect on our business, financial condition and results of operations. Our ability to obtain indemnification from foreign vendors may be hindered by the manufacturers' lack of understanding of U.S., state-specific or local product liability or other laws, which may make it more likely that we be required to respond to claims or complaints from customers as if we were the manufacturer of the products. Even with adequate insurance and indemnification, such claims could significantly damage our reputation and consumer confidence in our products. Our litigation expenses could increase as well, which also could have a materially negative impact on our results of operations even if a product liability claim is unsuccessful or is not fully pursued. Furthermore, if our vendors are unable or unwilling to recall products failing to meet standards, we may be required to recall those products at a substantial cost to us.

We purchase a portion of our products on a closeout basis. Some of these products are obtained through brokers or intermediaries rather than through manufacturers. The closeout nature of a portion of our products sometimes makes it more difficult for us to investigate all aspects of these products. We attempt to assure compliance and to test products when appropriate, and we seek to obtain indemnification through our vendors or to be listed as an additional insured, but there is no assurance that these efforts will be successful.

Our ability to obtain additional financing on favorable terms, if needed, could be adversely affected by volatility in the capital markets.

We obtain and manage liquidity from the positive cash flow we generate from our operating activities, our access to capital markets and our revolving credit facility. There is no assurance that our ability to obtain additional financing from financial institutions or through the capital markets, if needed, will not be adversely impacted by economic conditions. Tightening in the credit markets, low liquidity and volatility in the capital markets could result in diminished availability of credit, higher cost of borrowing and lack of confidence in the equity market, making it more difficult to obtain additional financing on terms that are favorable to us.

The terms of our revolving credit facility may restrict our current and future operations, which could adversely affect our ability to respond to changes in our business and to manage our operations.

Our revolving credit facility contains, and any additional debt financing we may incur would likely contain, covenants requiring us to maintain or adhere to certain financial ratios or limits and covenants that restrict our operations, which may include limitations on our ability to, among other things:

- incur additional indebtedness;
- pay dividends and make certain distributions, investments and other restricted payments;
- create certain liens or encumbrances;
- enter into transactions with our affiliates;
- redeem our common stock; and
- engage in certain merger, consolidation or asset sale transactions.

Complying with these covenants could adversely affect our ability to respond to changes in our business and manage our operations. In addition, these covenants could affect our ability to invest capital in our new stores and fund capital expenditures for existing stores. Our ability to comply with these covenants and other provisions in the revolving credit facility and any future debt instruments may be affected by changes in our operating and financial performance, changes in general business and economic conditions, adverse regulatory developments, or other events beyond our control. A failure by us to comply with the financial ratios and restrictive covenants contained in our revolving credit facility and any future debt instruments could result in an event of default. Upon the occurrence of an event of default, the lenders could elect to declare all amounts outstanding to be due and payable and exercise other remedies as set forth in our revolving credit facility and any future debt instruments. In addition, if we are in default, we may be unable to borrow additional amounts under any such facilities to the extent that they would otherwise be available and our ability to obtain future financing may also be impacted negatively. If the indebtedness under our revolving credit facility and any future debt instruments were to be accelerated, our future financial condition could be materially adversely affected.

Regulations related to conflict minerals could adversely impact our business.

The Securities and Exchange Commission has promulgated final rules mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act regarding disclosure of the use of tin, tantalum, tungsten and gold, known as conflict minerals, included in components of products either manufactured by public companies or for which public companies have contracted to manufacture. These new rules require due diligence to determine whether such minerals originated from the Democratic Republic of Congo (the “DRC”) or an adjoining country and whether such minerals helped finance the armed conflict in the DRC. While we do not manufacture products, we may in the future contract to manufacture products. Accordingly, there will be costs associated with complying with these disclosure requirements, including costs to determine the origin of conflict minerals used in any products we are deemed to contract to manufacture. In addition, the implementation of these rules could adversely affect the sourcing, supply and pricing of materials used in our products. Also, we may face reputational challenges if the due diligence procedures we implement do not enable us to verify the origins for all conflict minerals or to determine that such minerals are DRC conflict-free.

Risks Related to Ownership of Our Common Stock

Our stock price may be volatile or may decline regardless of our operating performance.

An active, liquid and orderly market for our common stock may not be sustained, which could depress the trading price of our common stock. In addition, broad market and industry factors, most of which we cannot control, may harm the price of our common stock, regardless of our actual operating performance. Factors that could cause fluctuation in the price of our common stock may include, among other things:

- actual or anticipated fluctuations in quarterly operating results or other operating metrics, such as comparable sales, that may be used by the investment community;
- changes in financial estimates by us or by any securities analysts who might cover our stock;
- speculation about our business in the press or the investment community;
- conditions or trends affecting our industry or the economy generally;
- stock market price and volume fluctuations of other publicly traded companies and, in particular, those that are in the retail industry;

announcements by us or our competitors of new product offerings, significant acquisitions, strategic partnerships or divestitures;

our entry into new markets;

timing of new store openings;

percentage of sales from new stores versus established stores;

additions or departures of key personnel;

actual or anticipated sales of our common stock, including sales by our directors, officers or significant shareholders;

significant developments relating to our relationships with business partners, vendors and distributors;

customer purchases of new products from us and our competitors;

investor perceptions of the retail industry in general and our Company in particular;

major catastrophic events;

volatility in our stock price, which may lead to higher share-based compensation expense under applicable accounting standards; and

changes in accounting standards, policies, guidance, interpretation or principles, for example, the adoption of Financial Accounting Standards Board ("FASB") ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," which involves employee share-based payment accounting and the volatility of the effective tax rate. In the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. For example, we and certain of our current and former senior officers had been parties to a securities class action lawsuit filed against us, which was dismissed. This type of litigation, even if it does not result in liability for us, could result in substantial costs to us and divert management's attention and resources. Your percentage ownership in us may be diluted by future equity issuances, which could reduce your influence over matters on which shareholders vote.

Our board of directors has the authority, without action or vote of our shareholders, to issue all or any part of our authorized but unissued shares of common stock, including shares issuable upon the exercise of options, shares issuable upon the vesting of restricted stock units or performance-based restricted stock units, shares that may be issued to satisfy our obligations under our equity incentive plan or shares of our authorized but unissued preferred stock. We initially reserved 7,600,000 shares of common stock under our equity incentive plan for future issuances and, as of February 2, 2019, 1,083,345 shares of our common stock are issuable upon the exercise of options outstanding, the vesting of restricted stock units and the vesting of performance-based restricted stock units under that plan. We also initially reserved 500,000 shares of common stock under our employee stock purchase plan for future issuances, and as of February 2, 2019, 25,893 shares of our common stock have been issued under that plan. Exercises of these options or issuances of common stock or preferred stock could reduce your influence over matters on which our shareholders vote and, in the case of issuances of preferred stock, likely could result in your interest in us being subject to the prior rights of holders of that preferred stock.

We do not expect to pay any cash dividends for the foreseeable future.

For the foreseeable future, we do not anticipate paying any cash dividends on our common stock. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon results of operations, financial condition, contractual restrictions, including under agreements for indebtedness we may incur, restrictions imposed by applicable law and other factors our board of directors deems relevant. Accordingly, if you purchase shares, realization of a gain on your investment will depend on the appreciation of the price of our common stock, which may never occur. Investors seeking cash dividends in the foreseeable future should not purchase our common stock.

If securities or industry analysts do not publish research or continue to publish or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts ceases coverage of our Company or fails to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if our operating results do not meet the expectations of the investor community, or one or more of the analysts who cover our Company downgrade our stock, our stock price could decline.

Anti-takeover provisions could delay and discourage takeover attempts that shareholders may consider to be favorable.

Certain provisions of our amended and restated articles of incorporation and amended and restated bylaws and applicable provisions of Pennsylvania law may make it more difficult or impossible for a third party to acquire control of us or effect a change in our board of directors and management.

In particular, these provisions, among other things:

- provide that only the chairman of the board of directors, the chief executive officer or a majority of the board of directors may call special meetings of the shareholders;
- classify our board of directors into three separate classes with staggered terms;
- provide for supermajority approval requirements for amending or repealing provisions in our amended and restated articles of incorporation and amended and restated bylaws;
- establish certain advance notice procedures for nominations of candidates for election as directors and for shareholder proposals to be considered at shareholders' meetings; and
- permit the board of directors, without further action of the shareholders, to issue and fix the terms of preferred stock, which may have rights senior to those of the common stock.

In addition, anti-takeover provisions in Pennsylvania law could make it more difficult for a third party to acquire control of us. These provisions could adversely affect the market price of our common stock and could reduce the amount that shareholders might receive if we are sold. For example, Pennsylvania law may restrict a third party's ability to obtain control of us and may prevent shareholders from receiving a premium for their shares of our common stock. Pennsylvania law also provides that our shareholders are not entitled by statute to propose amendments to our amended and restated articles of incorporation.

These and other provisions of Pennsylvania law and our amended and restated articles of incorporation and amended and restated bylaws could delay, defer or prevent us from experiencing a change of control or changes in our board of directors and management and may adversely affect our shareholders' voting and other rights. Any delay or prevention of a change of control transaction or changes in our board of directors and management could deter potential acquirers or prevent the completion of a transaction in which our shareholders could receive a substantial premium over the then current market price for their shares of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

In September 2016, we signed a fifteen-year lease for a new corporate headquarters location in Philadelphia, Pennsylvania to accommodate our current and anticipated future growth. We currently occupy approximately 117,000 square feet of office space and will expand into approximately 50,000 square feet of additional office space by no later than 2020. The lease agreement expires in early 2033 with three successive options to renew for additional terms of up to approximately fifteen years. In connection with our move to our new corporate headquarters, we paid a termination fee pursuant to the terms of the lease for our previous corporate headquarters.

Our approximately 600,000 square foot distribution center in Olive Branch, Mississippi is leased under a lease agreement expiring in 2022 with options to renew for three successive five-year periods. In June 2015, we opened a new distribution center in Pedricktown, New Jersey to support our anticipated growth. We currently occupy approximately 1,000,000 square feet at this distribution center, having expanded from 800,000 square feet in September 2018. The lease agreement, which began in fiscal 2015, will expire in 2025 with options to renew for three successive five-year periods. In March 2019, we completed the purchase of an approximately 700,000 square foot build-to-suit distribution center in Forsyth, Georgia for approximately \$42 million, for the land and building, to support our anticipated growth. We are planning to lease or build new distribution centers over the next few years to support our growth objectives.

At the end of fiscal 2018, there were 750 Five Below store locations in 33 states. All of our stores are leased from third parties. These leases typically have ten-year terms with additional five-year renewal options, and many provide us with the option to terminate early under specified conditions. In addition to future minimum lease payments, some of our store leases provide for additional rental payments based on a percentage of net sales if sales at the respective stores exceed specified levels, as well as the payment of common area maintenance charges, real property insurance and real estate taxes. Many of our lease agreements have defined escalating rent provisions over the initial term and any extensions.

ITEM 3. 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 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the NASDAQ Global Select Market under the symbol "FIVE." The following table sets forth, for the periods indicated, the high and low sales prices of our common stock as reported by the NASDAQ Global Select Market:

| Fiscal 2018 | High | Low |
|--|----------|---------|
| First Quarter (February 4, 2018 - May 5, 2018) | \$78.28 | \$60.00 |
| Second Quarter (May 6, 2018 - August 4, 2018) | \$109.09 | \$69.96 |
| Third Quarter (August 5, 2018 - November 3, 2018) | \$136.13 | \$99.25 |
| Fourth Quarter (November 4, 2018 - February 2, 2019) | \$127.60 | \$86.57 |
| Fiscal 2017 | High | Low |
| First Quarter (January 29, 2017 - April 29, 2017) | \$49.86 | \$37.14 |
| Second Quarter (April 30, 2017 - July 29, 2017) | \$54.13 | \$44.30 |
| Third Quarter (July 30, 2017 - October 28, 2017) | \$58.07 | \$46.00 |
| Fourth Quarter (October 29, 2017 - February 3, 2018) | \$73.55 | \$54.82 |

On February 1, 2019 (the last trading day of fiscal 2018), the last reported sale price on the NASDAQ Global Select Market of our common stock was \$124.73 per share. As of March 8, 2019, we had approximately 86,868 holders of record of our common stock.

Performance Graph

This performance graph and related information shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act"), or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any future filing under the Securities Act of 1933 or the Exchange Act, except to the extent that we specifically incorporate it by reference into such filing.

The following graph compares the cumulative total shareholder return on our common stock from July 19, 2012 (the date our common stock commenced trading on the NASDAQ Global Select Market) through February 2, 2019, with the return on (i) the NASDAQ Global Market Composite Index and (ii) the NASDAQ US Benchmark Retail Index over the same period. This graph assumes an initial investment of \$100 and assumes the reinvestment of dividends, if any. Such returns are based on historical results and are not intended to suggest future performance.

| | | | | | | | | |
|--------------------------------------|-----------|----------|-----------|-----------|-----------|-----------|----------|----------|
| | 7/19/2012 | 2/1/2013 | 1/31/2014 | 1/30/2015 | 1/29/2016 | 1/27/2017 | 2/2/2018 | 2/1/2019 |
| FIVE BELOW, INC. | \$100.00 | \$140.00 | \$138.30 | \$125.70 | \$132.90 | \$141.90 | \$237.50 | \$470.70 |
| NASDAQ GLOBAL MARKET COMPOSITE INDEX | \$100.00 | \$107.20 | \$138.40 | \$156.30 | \$155.60 | \$190.90 | \$244.10 | \$244.90 |
| NASDAQ US BENCHMARK RETAIL INDEX | \$100.00 | \$111.00 | \$132.70 | \$161.50 | \$168.00 | \$182.50 | \$242.80 | \$251.70 |

Dividends

During the past five fiscal years, we have not declared, and currently do not plan to declare in the foreseeable future, dividends on shares of our common stock. Any further determination to pay dividends on our capital stock will be at the discretion of our board of directors, subject to applicable laws, and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors considers relevant. In addition, the terms of our revolving credit facility contain restrictions on our ability to pay dividends.

Issuer Purchases of Equity Securities

The table below sets forth information regarding repurchases of our common stock during the fourth fiscal quarter of 2018:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased As Part of a Publicly Announced Program ⁽¹⁾ | Maximum Dollar Value of Shares that May Yet be Purchased Under the Program |
|-------------------------------------|----------------------------------|------------------------------|---|--|
| November 4, 2018 - December 1, 2018 | — | — | — | \$100,000,000 |
| December 2, 2018 - January 5, 2019 | 21,810 | \$91.07 | 21,810 | \$98,013,000 |
| January 6, 2019 - February 2, 2019 | — | — | — | \$98,013,000 |
| Fourth Quarter 2018 | 21,810 | \$91.07 | 21,810 | \$98,013,000 |

(1) On March 21, 2018, we announced that 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. This repurchase program does not include a specific timetable or price targets and may be suspended or terminated at any time. Shares may be repurchased through open market or privately negotiated transactions at the discretion of management based on its evaluation of market conditions and other factors.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected financial and other data as of and for the periods indicated. The selected financial data for fiscal 2018, 2017 and 2016 and selected consolidated balance sheet data as of February 2, 2019 and February 3, 2018 have been derived from our consolidated financial statements audited by KPMG LLP, our independent registered public accounting firm, included elsewhere in this Annual Report. The selected financial data for fiscal 2015 and fiscal 2014, and the selected balance sheet data as of January 28, 2017, January 30, 2016, and January 31, 2015, have been derived from our audited consolidated financial statements that have not been included in this Annual Report. The historical results presented below are not necessarily indicative of the results to be expected for any future period. You should read this selected financial data in conjunction with the consolidated financial statements and accompanying notes and the information under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Annual Report.

We operate on a fiscal calendar that results in a given fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to January 31st of the following year. The reporting periods contained in the following table consist of 53 weeks of operations in fiscal 2017 and 52 weeks of operations in each of fiscal 2018, 2016, 2015, and 2014, respectively.

| | Fiscal Year | | | | |
|---|--|------------|------------|------------|------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| | (in millions, except share and per share data) | | | | |
| Consolidated Statements of Operations Data ⁽¹⁾ : | | | | | |
| Net sales | \$1,559.6 | \$1,278.2 | \$1,000.4 | \$832.0 | \$680.2 |
| Cost of goods sold | 994.5 | 814.8 | 643.4 | 540.0 | 442.4 |
| Gross profit | 565.1 | 463.4 | 357.0 | 291.9 | 237.8 |
| Selling, general and administrative expenses ⁽²⁾ | 377.9 | 306.0 | 243.1 | 199.0 | 160.8 |
| Operating income | 187.2 | 157.4 | 114.0 | 92.9 | 77.0 |
| Interest income, net | 4.6 | 1.5 | 0.3 | — | 0.1 |
| Loss on debt extinguishment | — | — | — | — | 0.2 |
| Other expense | — | — | — | 0.3 | — |
| Income before income taxes | 191.8 | 158.8 | 114.3 | 92.7 | 76.7 |
| Income tax expense | 42.2 | 56.4 | 42.4 | 35.0 | 28.6 |
| Net income | \$149.6 | \$102.5 | \$71.8 | \$57.7 | \$48.0 |
| Per Share Data: | | | | | |
| Basic income per common share ⁽³⁾ | \$2.68 | \$1.86 | \$1.31 | \$1.06 | \$0.89 |
| Diluted income per common share ⁽³⁾ | \$2.66 | \$1.84 | \$1.30 | \$1.05 | \$0.88 |
| Weighted average shares outstanding: | | | | | |
| Basic shares | 55,763,034 | 45,208,246 | 54,845,708 | 54,513,622 | 54,219,801 |
| Diluted shares | 56,220,864 | 45,561,472 | 55,128,870 | 54,793,301 | 54,573,855 |

| | Fiscal Year | | | | |
|---|-------------|-----------|-----------|-----------|-----------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| (in millions, except total stores data) | | | | | |
| Consolidated Statements of Cash Flows Data ⁽¹⁾ : | | | | | |
| Net cash provided by (used in): | | | | | |
| Operating activities | \$184.1 | \$167.4 | \$106.6 | \$87.9 | \$61.4 |
| Investing activities | \$(39.5) | \$(139.2) | \$(86.8) | \$(99.4) | \$(32.3) |
| Financing activities | \$(5.6) | \$8.4 | \$3.1 | \$1.4 | \$(16.1) |
| Other Operating and Financial Data ⁽¹⁾ : | | | | | |
| Total stores at end of period | 750 | 625 | 522 | 437 | 366 |
| Comparable sales growth | 3.9 | % 6.5 | % 2.0 | % 3.4 | % 3.4 |
| Average net sales per store ⁽⁴⁾ | \$2.2 | \$2.2 | \$2.0 | \$2.0 | \$1.9 |
| Capital expenditures | \$113.7 | \$67.8 | \$44.8 | \$53.1 | \$32.3 |
| Consolidated Balance Sheet Data ⁽¹⁾ : | | | | | |
| Cash and cash equivalents | \$251.7 | \$112.7 | \$76.1 | \$53.1 | \$63.2 |
| Short-term investment securities | 85.4 | 132.0 | 77.8 | 46.3 | — |
| Total current assets | 642.3 | 479.4 | 339.8 | 264.7 | 199.0 |
| Total assets | 952.3 | 695.7 | 500.5 | 393.3 | 294.1 |
| Total current liabilities | 253.1 | 164.5 | 116.6 | 102.2 | 79.4 |
| Total liabilities | 337.2 | 237.2 | 169.1 | 148.8 | 119.9 |
| Total shareholders' equity | \$615.1 | \$458.6 | \$331.4 | \$244.5 | \$174.3 |

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

Fiscal 2014 includes \$0.9 million of share-based compensation expense that relates to the cancellation of certain (2) stock options, in exchange for the grant of restricted shares and on-going expense recognition of the awards over the remaining vesting period.

(3) Please see Note 3 in our consolidated financial statements included elsewhere in this Annual Report for an explanation of per share calculations.

(4) Only includes stores open during the full fiscal year.

ITEM 7. 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 elsewhere in this Annual Report. 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 in Part I, Item 1A "Risk Factors" and "Special Note Regarding Forward-Looking Statements." 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 2019" or "fiscal 2019" refer to the period from February 3, 2019 to February 1, 2020, which consists of a 52-week fiscal year. References to "fiscal year 2018" or "fiscal 2018" refer to the period from February 4, 2018 to February 2, 2019, which consists of 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 consists of a 53-week fiscal year. References to "fiscal year 2016" or "fiscal 2016" refer to the period from January 31, 2016 to January 28, 2017, which consists of a 52-week fiscal year. References to "fiscal year 2015" or "fiscal 2015" refer to the period from February 1, 2015 to January 30, 2016, which consists of a 52-week fiscal year. References to "fiscal year 2014" or "fiscal 2014" refer to the period from February 2, 2014 to January 31, 2015, which consists of a 52-week fiscal year. 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.

Overview

Five Below is a rapidly growing specialty value retailer offering a broad range of trend-right, high-quality merchandise targeted at the tween and teen customer. 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 February 2, 2019, we operated 750 stores in 33 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.

We believe that our business model has resulted in strong financial performance irrespective of the economic environment. Our comparable sales, based on the restated calendar, increased by 3.9% in fiscal 2018, 6.5% in fiscal 2017 and 2.0% in fiscal 2016. Between fiscal 2016 and fiscal 2018, our net sales increased from \$1,000.4 million to \$1,559.6 million, representing a compounded annual growth rate of 24.9%. Over the same period, our operating income increased from \$114.0 million to \$187.2 million, representing a compounded annual growth rate of 28.2%. In addition, we expanded our store base from 522 stores at the end of fiscal 2016 to 750 stores at the end of fiscal 2018. We plan to open approximately 145 to 150 new stores in fiscal 2019.

We expect to continue our strong growth in the future. By offering trend-right merchandise at a differentiated price point of \$5 and below, our stores have been successful in varying geographic regions, population densities and real estate settings. As of February 2, 2019, we operated stores in 33 states in the Northeast, South, Midwest and West regions of the United States. We are primarily located in power, community and lifestyle shopping centers across a variety of urban, suburban and semi-rural markets with trade areas including at least 100,000 people in the specified market. We believe we have the opportunity to expand our store base in the United States from 750 locations as of February 2, 2019 to more than 2,500 locations over time. Our ability to open profitable new stores depends on many factors, including our ability to identify suitable markets and sites; negotiate leases with acceptable terms; achieve brand awareness in the new markets; efficiently source and distribute additional merchandise; and achieve sufficient levels of cash flow and financing to support our expansion.

For the fiscal year ended February 3, 2018, we recorded a provisional net tax benefit of \$0.5 million related to the impact of the TCJA. This provisional tax benefit included a one-time \$1.5 million remeasurement charge of the net U.S. deferred tax assets to the lower enacted U.S. corporate tax rate of 21% and a \$2.0 million tax benefit related to the Company's 2017 blended rate of 33.7% as a result of Section 15 of the Internal Revenue Code. December 22, 2018 marked the end of the measurement period for purposes of Securities and Exchange Commission Staff Accounting Bulletin No. 118 ("SAB 118"). As such, the Company has completed the analysis based on legislative updates relating to the U.S. TCJA currently available and recorded no additional tax impacts for the year ended February 2, 2019. While we have completed our accounting of the income tax effects of the U.S. TCJA under SAB 118, the related tax impacts may differ, possibly materially, due to changes in interpretations and assumptions that we have made, additional guidance that may be issued by regulatory bodies, and actions and related accounting policy decisions we may take as a result of the new legislation.

We have a proven and highly profitable store model that has produced consistent financial results and returns and our new stores have achieved average payback periods of less than one year. Our new store model assumes a store size of approximately 8,500 square feet that achieves annual sales of approximately \$1.8 million in the first full year of operation. Our new store model also assumes an average new store investment of approximately \$0.3 million. Our new store investment includes our store build-out (net of tenant allowances), inventory (net of payables) and cash pre-opening expenses.

Our planned store expansion will place increased demands on our operational, managerial, administrative and other resources. Managing our growth effectively will require us to continue to maintain adequate distribution capacity, enhance our store management systems, financial and management controls, information systems and other operational system capabilities. In addition, we will be required to hire, train and retain store management and other qualified personnel. For further information, see Part I, Item 1A "Risk Factors-Risk Relating to our Business and Industry."

Over the past five years we have invested a significant amount of capital in infrastructure and systems necessary to support our future growth and we expect to incur additional capital expenditures related to expansion of our infrastructure and systems in future periods. In fiscal 2015, we invested in a new ERP and began the multi-year implementation of the ERP, which is designed to enhance functionality and provide timely information to the Company's management team related to the operation of the business. In June 2015, we opened a new distribution center in Pedricktown, New Jersey to support our anticipated growth. We occupy approximately 1,000,000 square feet at this distribution center, having expanded from 800,000 square feet in September 2018. In September 2016, we signed a 15-year lease for a new corporate headquarters location in Philadelphia, Pennsylvania to accommodate our current and anticipated future growth. We currently occupy approximately 117,000 square feet of office space and will expand into approximately 50,000 square feet of additional office space by no later than 2020. In March 2019, we completed the purchase of an approximately 700,000 square foot build-to-suit distribution center in Forsyth, Georgia for approximately \$42 million, for the land and building, to support our anticipated growth. We are planning to lease or build new distribution centers over the next few years to support our growth objectives.

We continuously assess ways to maximize the productivity and efficiency of our existing facilities, infrastructure and systems. The timing and amount of investments in our facilities, infrastructure and systems could affect the comparability of our results of operations in future periods. The completion date and ultimate cost of future projects could differ significantly from initial expectations due to construction-related or other reasons.

We believe our business strategy will continue to offer significant opportunity, but it also presents risks and challenges. These risks and challenges include, but are not limited to, that we may not be able to effectively identify and respond to changing trends and customer preferences, that we may not be able to find desirable locations for new stores and that we may not be able to effectively manage our future growth. In addition, our financial results can be expected to be directly impacted by substantial increases in product costs due to commodity cost increases or general inflation which could lead to a reduction in our sales as well as greater margin pressure as costs may not be able to be passed on to consumers. To date, changes in commodity prices and general inflation have not materially impacted our business. In response to increasing commodity prices or general inflation, we seek to minimize the impact of such events by sourcing our merchandise from different vendors and changing our product mix. See Part I, Item 1A "Risk Factors" for a description of these and other important factors that could adversely impact us and our results of

operations.

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 year ended February 2, 2019 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 fifty-two weeks from February 4, 2018 to February 2, 2019 as compared to the fifty-two weeks from February 5, 2017 to February 3, 2018.

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 Annual Report 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 both internal and 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 Annual Report 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 costs 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.

Operating Income

Operating income equals gross profit less SG&A expenses. Operating income excludes interest expense or income, loss on debt extinguishment 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.

| | Fiscal Year | | | |
|---|------------------------------------|-----------|-----------|---|
| | 2018 | 2017 | 2016 | |
| | (in millions, except total stores) | | | |
| Consolidated Statements of Operations Data ⁽¹⁾ : | | | | |
| Net sales | \$1,559.6 | \$1,278.2 | \$1,000.4 | |
| Cost of goods sold | 994.5 | 814.8 | 643.4 | |
| Gross profit | 565.1 | 463.4 | 357.0 | |
| Selling, general and administrative expenses | 377.9 | 306.0 | 243.1 | |
| Operating income | 187.2 | 157.4 | 114.0 | |
| Interest income, net | 4.6 | 1.5 | 0.3 | |
| Income before income taxes | 191.8 | 158.8 | 114.3 | |
| Income tax expense | 42.2 | 56.4 | 42.4 | |
| Net income | \$149.6 | \$102.5 | \$71.8 | |
| Percentage of Net Sales ⁽¹⁾ : | | | | |
| Net sales | 100.0 | % 100.0 | % 100.0 | % |
| Cost of goods sold | 63.8 | % 63.7 | % 64.3 | % |
| Gross profit | 36.2 | % 36.3 | % 35.7 | % |
| Selling, general and administrative expenses | 24.2 | % 23.9 | % 24.3 | % |
| Operating income | 12.0 | % 12.3 | % 11.4 | % |
| Interest income, net | 0.3 | % 0.1 | % — | % |
| Income before income taxes | 12.3 | % 12.4 | % 11.4 | % |
| Income tax expense | 2.7 | % 4.4 | % 4.2 | % |
| Net income | 9.6 | % 8.0 | % 7.2 | % |
| Operational Data: | | | | |
| Total stores at end of period | 750 | 625 | 522 | |
| Comparable sales growth | 3.9 | % 6.5 | % 2.0 | % |
| Average net sales per store ⁽²⁾ | \$2.2 | \$2.2 | \$2.0 | |

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

(2) Only includes stores open during the full fiscal year.

Fiscal Year 2018 Compared to Fiscal Year 2017

Net Sales

Net sales increased to \$1,559.6 million in fiscal year 2018 from \$1,278.2 million in fiscal year 2017, an increase of \$281.4 million, or 22.0%. The increase was the result of a non-comparable sales increase of \$232.3 million and a comparable sales increase of \$49.1 million. In fiscal year 2018, we opened 125 net new stores compared to 103 net new stores in fiscal year 2017. The increase in non-comparable sales was primarily driven by new stores that opened in fiscal 2018 and the number of stores that opened in fiscal 2017 but have not been open for 15 full months. Comparable sales, based on the restated calendar, increased 3.9%. This increase resulted from an increase of approximately 3.1% in the average dollar value of transactions and an increase of approximately 0.8% in the number of transactions.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased to \$994.5 million in fiscal year 2018 from \$814.8 million in fiscal year 2017, an increase of \$179.7 million, or 22.1%. The increase in cost of goods sold was primarily the result of an increase in the merchandise costs of goods resulting from an increase in sales. Also contributing to the increase in cost of goods sold was an increase in store occupancy costs resulting from new store openings.

Gross profit increased to \$565.1 million in fiscal year 2018 from \$463.4 million in fiscal year 2017, an increase of \$101.7 million, or 21.9%. Gross margin decreased to 36.2% for fiscal year 2018 from 36.3% in fiscal year 2017, a decrease of approximately 10 basis points. The decrease in gross margin was primarily the result of an increase as a percentage of sales in merchandise cost of goods sold partially offset by a decrease as a percentage of sales in store occupancy costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$377.9 million in fiscal year 2018 from \$306.0 million in fiscal year 2017, an increase of \$71.9 million, or 23.5%. As a percentage of net sales, selling, general and administrative expenses increased approximately 30 basis points to 24.2% in fiscal year 2018 compared to 23.9% in fiscal year 2017. The increase in selling, general and administrative expenses was the result of increases of \$59.5 million in store-related expenses to support new store growth and our marketing initiatives and \$12.4 million of corporate-related expenses.

Income Tax Expense

Income tax expense decreased to \$42.2 million in fiscal year 2018 from \$56.4 million in fiscal year 2017, a decrease of \$14.2 million, or approximately 25.2%. This 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 FASB ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting." These decreases were partially offset by a \$33.0 million increase in pre-tax net income.

Our effective tax rate for fiscal year 2018 was 22.0% compared to 35.5% in fiscal year 2017. The decrease in our effective tax rate was primarily driven by the impact of tax reform as a result of the TCJA and the adoption of 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 rather than as additional paid-in capital in the consolidated balance sheets.

For the fiscal year ended February 3, 2018, we recorded a provisional net tax benefit of \$0.5 million related to the impact of the TCJA. This provisional tax benefit included a one-time \$1.5 million remeasurement charge of the net U.S. deferred tax assets to the lower enacted U.S. corporate tax rate of 21% and a \$2.0 million tax benefit related to the Company's 2017 blended rate of 33.7% as a result of Section 15 of the Internal Revenue Code. December 22, 2018 marked the end of the measurement period for purposes of SAB 118. As such, we have completed the analysis based on legislative updates relating to the U.S. TCJA currently available and recorded no additional tax impacts for the year ended February 2, 2019. While we have completed our accounting of the income tax effects of the U.S. TCJA under SAB 118, the related tax impacts may differ, possibly materially, due to changes in interpretations and assumptions that we have made, additional guidance that may be issued by regulatory bodies, and actions and related accounting policy decisions we may take as a result of the new legislation.

Net Income

As a result of the foregoing, net income increased to \$149.6 million in fiscal year 2018 from \$102.5 million in fiscal year 2017, an increase of approximately \$47.2 million, or 46.1%.

Fiscal Year 2017 Compared to Fiscal Year 2016

Net Sales

Net sales increased to \$1,278.2 million in fiscal year 2017 from \$1,000.4 million in fiscal year 2016, an increase of \$277.8 million, or 27.8%. The increase was the result of a non-comparable sales increase of \$217.3 million and a comparable sales increase of \$60.5 million. In fiscal year 2017, we opened 103 net new stores compared to 85 net new stores in fiscal year 2016. The increase in non-comparable sales was primarily driven by new stores that opened in fiscal 2017 and the number of stores that opened in fiscal 2016 but have not been open for 15 full months and includes approximately \$15.7 million of sales contributed by the 53rd week in fiscal 2017.

Comparable sales increased 6.5%. This increase resulted from an increase of approximately 5.8% in the number of transactions and an increase of approximately 0.7% in the average dollar value of transactions.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased to \$814.8 million in fiscal year 2017 from \$643.4 million in fiscal year 2016, an increase of \$171.4 million, or 26.6%. The increase in cost of goods sold was primarily the result of an increase in the merchandise costs of goods resulting from an increase in sales. Also contributing to the increase in cost of goods sold was an increase in store occupancy costs resulting from new store openings.

Gross profit increased to \$463.4 million in fiscal year 2017 from \$357.0 million in fiscal year 2016, an increase of \$106.4 million, or 29.8%. Gross margin increased to 36.3% for fiscal year 2017 from 35.7% in fiscal year 2016, an increase of approximately 60 basis points. The increase in gross margin was primarily the result of decreases as a percentage of sales in store occupancy costs and merchandise cost of goods sold.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$306.0 million in fiscal year 2017 from \$243.1 million in fiscal year 2016, an increase of \$62.9 million, or 25.9%. As a percentage of net sales, selling, general and administrative expenses decreased approximately 40 basis points to 23.9% in fiscal year 2017 compared to 24.3% in fiscal year 2016. The increase in selling, general and administrative expenses was the result of increases of \$42.0 million in store-related expenses to support new store growth and our marketing initiatives and \$20.9 million of corporate-related expenses.

Income Tax Expense

Income tax expense increased to \$56.4 million in fiscal year 2017 from \$42.4 million in fiscal year 2016, an increase of \$14.0 million, or approximately 33.0%. This increase in income tax expense was primarily the result of a \$44.6 million increase in pre-tax net income. Our effective tax rate for fiscal year 2017 was 35.5% compared to 37.1% in fiscal year 2016. The decrease in our effective tax rate was primarily driven by discrete items, which include the impact of the adoption of FASB 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 rather than as additional paid-in capital in the consolidated balance sheets, and the impact of tax reform as a result of the TCJA.

The TCJA includes a number 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 recorded an additional expense of \$1.5 million in deferred income tax expense for the remeasurement of our net deferred tax asset at the 21% tax rate. Additionally, and in accordance with Section 15 of the Internal Revenue Code, we utilized a blended rate of 33.7% for our fiscal 2017 tax year, by applying a prorated percentage of the number of days prior to and subsequent to the January 1, 2018 effective date as compared with the 35% for the 2016 tax year. The effect of this blended rate change is a benefit of \$2.0 million. 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. As a result of the TCJA, we expect that the effective tax rate in fiscal 2018 will be approximately 24.5%.

The net \$0.5 million benefit represents what we believe is the impact of the TCJA in the current year. As the benefit is based on currently available information and interpretations, which are continuing to evolve, the benefit should be considered provisional. We 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 as of February 3, 2018, and we will continue to refine such amounts

within the measurement period provided by SAB 118.

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Net Income

As a result of the foregoing, net income increased to \$102.5 million in fiscal year 2017 from \$71.8 million in fiscal year 2016, an increase of approximately \$30.7 million, or 42.6%.

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.

Seasonality

Our business is seasonal in nature with the highest level of net sales and net income generated in the fourth fiscal quarter due to the year-end holiday season and, therefore, operating results for any fiscal quarter are not necessarily indicative of results for the full fiscal year. To prepare for the holiday season, we must order and keep in stock more merchandise than we carry during other parts of the year. We expect inventory levels, along with an increase in accounts payable and accrued expenses, generally to reach their highest levels in the third and fourth fiscal quarters in anticipation of the increased net sales during the year-end holiday season. As a result of this seasonality, and generally because of variation in consumer spending habits, we experience fluctuations in net sales, net income and working capital requirements during the year.

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 \$170 million in fiscal 2019, which exclude the impact of tenant allowances, and which we expect to fund from cash generated from operations. We expect to incur approximately \$50 million of our capital expenditure budget in fiscal 2019 to construct and open approximately 145 to 150 new stores, with the remainder projected to be spent on our distribution facilities including the new distribution center in Georgia, store relocations and remodels, 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 and Revolving Credit Facility. When we have used our Amended Revolving Credit Facility and 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 fiscal year 2018. As of February 2, 2019 and February 3, 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. In December 2018, we repurchased 21,810 shares under this program at an aggregate cost of approximately \$2.0 million. There can be no assurances that any additional repurchases will be completed, or as to the timing or amount of any repurchases. The share repurchase program may be modified or discontinued at any time. 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):

| | Fiscal Year | | |
|--|-------------|----------|---------|
| | 2018 | 2017 | 2016 |
| Net cash provided by operating activities | \$184.1 | \$167.4 | \$106.6 |
| Net cash used in investing activities | (39.5) | (139.2) | (86.8) |
| Net cash (used in) provided by financing activities | (5.6) | 8.4 | 3.1 |
| Net increase during period in cash and cash equivalents ⁽¹⁾ | \$139.1 | \$36.6 | \$23.0 |

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

Cash Provided by Operating Activities

Net cash provided by operating activities for fiscal 2018 was \$184.1 million, an increase of \$16.7 million compared to fiscal 2017. The increase was primarily due to an increase in operating cash flows from store performance and a decrease in income taxes paid partially offset by changes in working capital. During fiscal 2018, we added 125 net new stores and expect to add approximately 145 to 150 new stores in fiscal 2019.

Net cash provided by operating activities for fiscal 2017 was \$167.4 million, an increase of \$60.8 million compared to fiscal 2016. The increase was primarily due to an increase in operating cash flows from store performance partially offset by an increase in income taxes paid. During fiscal 2017, we added 103 net new stores.

Cash Used in Investing Activities

Net cash used in investing activities for fiscal 2018 was \$39.5 million, a decrease of \$99.7 million compared to fiscal 2017. The decrease was primarily due to an increase in net sales, maturities, and redemptions of investment securities partially offset by an increase in capital expenditures. The increase in capital expenditures was primarily for our distribution facilities, our new store construction, and our corporate infrastructure.

Net cash used in investing activities for fiscal 2017 was \$139.2 million, an increase of \$52.4 million compared to fiscal 2016. The increase was primarily due to increases in net purchases of investment securities and capital expenditures. 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 fiscal year 2018 was \$5.6 million, an increase of \$14.0 million compared to fiscal 2017. The increase was primarily the result of an increase in common shares withheld for taxes, a decrease in the proceeds from the exercise of options to purchase common stock and vesting of restricted and performance-based restricted stock units and an increase in the repurchase and retirement of common stock.

Net cash provided by financing activities for fiscal year 2017 was \$8.4 million, an increase of \$5.2 million compared to fiscal 2016. The increase was primarily the result of increases in the proceeds from the exercise of options to purchase common stock and vesting of restricted and performance-based restricted stock units and a decrease in the common shares withheld for taxes offset by a decrease in excess tax benefits related to exercises of stock options and the vesting of restricted stock units and performance-based restricted stock units driven by the impact of the adoption of ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," with respect to excess income tax benefits and deficiencies being classified as an operating activity rather than a financing activity.

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., 1616 Holdings, Inc. (formerly known as 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., 1616 Holdings, 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 distributions 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 February 2, 2019 and February 3, 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 February 2, 2019, we were in compliance with the covenants applicable to us under the Amended Revolving Credit Facility.

Critical Accounting Policies and Estimates

We have identified the policies below as critical to our business operations and understanding of our consolidated results of operations. The impact and any associated risks related to these policies on our business operations are discussed throughout “Management’s Discussion and Analysis of Financial Condition and Results of Operations” where such policies affect our reported and expected financial results. Our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. For a detailed discussion on the application of these and other accounting policies, see Note 1 in our annual consolidated financial statements included elsewhere in this Annual Report.

Inventories

Inventories consist of finished goods purchased for resale, including freight, and are stated at the lower of cost and net realizable value, at the individual product level. Cost is determined on a weighted average cost method. The market value used in the lower of cost or market analysis is subject to the effects of consumer demands, customer preferences and the broader economy. The effects of the previously listed criteria are not controllable by management. Our

management reviews inventory levels in order to identify obsolete and slow-moving merchandise as these factors can indicate a decline in the market value of inventory on hand. Inventory cost is reduced when the selling price less costs of disposal is below cost. We accrue an estimate for inventory shrink for the period between the last physical count and the balance sheet date. The shrink estimate can be affected by changes in merchandise mix and changes in actual shrink trends. These estimates are derived using available data and our historical experience. Our estimates may be impacted by changes in certain underlying assumptions and may not be indicative of future activity.

Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Assets are grouped and evaluated for impairment at the lowest level of which there are identifiable cash flows, which is generally at a store level. Assets are reviewed for impairment using factors including, but not limited to, our future operating plans and projected cash flows. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated undiscounted future cash flows, then an impairment charge is recognized as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Fair value is based on discounted future cash flows of the asset using a discount rate commensurate with the risk. In the event of a store closure, we will record an impairment charge, if appropriate, or accelerate depreciation over the revised useful life of the asset. Based on the analysis performed, our management believes that there was no impairment of long-lived assets for each of the 2018, 2017 and 2016 fiscal years. The impairment loss analysis requires management to apply judgment and make estimates.

Income Taxes

Income taxes are accounted for under the asset-and-liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

We record a valuation allowance to reduce our deferred tax assets when uncertainty regarding their realizability exists. In assessing the realizability of deferred tax assets, our management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Our management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

For the fiscal year ended February 3, 2018, we recorded a provisional net tax benefit of \$0.5 million related to the impact of the TCJA. This provisional tax benefit included a one-time \$1.5 million remeasurement charge of the net U.S. deferred tax assets to the lower enacted U.S. corporate tax rate of 21% and a \$2.0 million tax benefit related to the Company's 2017 blended rate of 33.7% as a result of Section 15 of the Internal Revenue Code. December 22, 2018 marked the end of the measurement period for purposes of SAB 118. As such, we have completed the analysis based on legislative updates relating to the U.S. TCJA currently available and recorded no additional tax impacts for the year ended February 2, 2019. While we have completed our accounting of the income tax effects of the U.S. TCJA under SAB 118, the related tax impacts may differ, possibly materially, due to changes in interpretations and assumptions that we have made, additional guidance that may be issued by regulatory bodies, and actions and related accounting policy decisions we may take as a result of the new legislation.

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 was 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. We plan to adopt this pronouncement in the first quarter of fiscal 2019, coinciding with the pronouncement's effective date. Our ability to adopt this standard depends on various factors including system readiness and completing an analysis of information necessary to quantify the financial statement impact. We have established a cross-functional team to implement the pronouncement and we have finalized our implementation of a leasing software solution, our assessment of the practical expedients and policy elections offered by the standard, and changes to our business processes, systems and controls to support the adoption of this standard. Additionally, we are in the process of developing drafts of our new footnote disclosures required under the new pronouncement that will be disclosed in our Form 10-Q for the first fiscal quarter of 2019. Although we are still finalizing the quantitative effects of ASU 2016-02, this pronouncement will impact our statement of operations with additional expenses primarily as it relates to the treatment of certain initial direct lease costs that were previously capitalizable. We also expect a significant increase of approximately \$600 million to \$800 million in total assets and total liabilities on our consolidated balance sheets in the period of adoption given that we have a significant number of leases for our stores.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 affects all entities that issue share-based payment awards to their employees. This accounting standards update makes several modifications to the accounting for employee share-based payment transactions, including the requirement that the excess income tax benefits or deficiencies that arise when the tax consequences of share-based compensation differ from amounts previously recognized in the consolidated statement of operations be recognized as income tax benefit or expense in the consolidated statement of operations rather than as additional paid-in capital in the consolidated balance sheet. The guidance also clarifies the classification of components of share-based awards on the consolidated statement of cash flows such that excess income tax benefits should not be presented separately from other income taxes in the consolidated statement of cash flows and, thus, should be classified as an operating activity rather than a financing activity as they are under the current guidance. ASU 2016-09 is effective for financial statements issued for annual reporting periods beginning after December 15, 2016 and interim periods within those years. We adopted this standard prospectively in the first quarter of fiscal 2017. This standard will result in a decrease or increase to our effective tax rate, net income, and earnings per share based upon the requirement to recognize the excess income tax benefits or deficiencies in the consolidated statements of operations and change our earnings per share calculation to exclude excess tax benefits previously assumed under the treasury stock method. No changes were required related to the classification of employee taxes paid for withheld shares in our consolidated statements of cash flows since we have historically classified these within financing cash flows.

In August 2018, the FASB issued ASU 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract." ASU 2018-15 requires implementation costs incurred by customers in cloud computing arrangements to be deferred over the noncancellable term of the cloud computing arrangements plus any optional renewal periods (1) that are reasonably certain to be exercised by the customer or (2) for which exercise of the renewal option is controlled by the cloud service provider. The effective date of this pronouncement is for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, and early adoption is permitted. The standard can be adopted either using the prospective or retrospective transition approach. During the third quarter of fiscal 2018, we adopted the pronouncement using the prospective transition method and it did not have a significant impact to our financial statements.

Contractual Obligations

The following table summarizes, as of February 2, 2019, our minimum rental commitments under operating lease agreements including assumed extensions, minimum payments for long-term debt and other obligations in future periods:

| (In millions) | Payments Due By Period | | | |
|---------------|------------------------|---------------------|-----------|-----------|
| | Total ⁽¹⁾ | Less than 1-3 years | 3-5 years | More than |

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| | | 1 year | | 5 years | |
|--|------------|----------|----------|----------|----------|
| Operating lease obligations ⁽²⁾ | \$ 1,139.0 | \$ 147.4 | \$ 297.0 | \$ 260.4 | \$ 434.2 |
| Purchase obligations ⁽³⁾ | 7.4 | 7.4 | — | — | — |
| Total | \$ 1,146.4 | \$ 154.8 | \$ 297.0 | \$ 260.4 | \$ 434.2 |

The amounts in this table exclude obligations under employment agreements and approximately \$35 million for the (1) remaining balance related to the purchase of the distribution center (land and building) in Forsyth, Georgia. For a discussion of the compensation of our executive officers, see Part III, Item 11 “Executive Compensation”.

Our store leases generally have initial lease terms of 10 years and include renewal options on substantially the (2) same terms and conditions as the original lease. Also included in operating leases are our leases for the corporate office, distribution centers and other.

- (3) Purchase obligations are primarily for materials that will be used in the construction of new stores and purchase commitments for infrastructure and systems that will be used by the corporate office and distribution centers.

From February 4, 2018 to March 28, 2019, we committed to 19 new store leases with terms of 10 years that have future minimum lease payments of approximately \$35.2 million.

Off Balance Sheet Arrangements

For the fiscal year ended February 2, 2019, 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.

ITEM 7A. 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 February 2, 2019, we had approximately \$20 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.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FIVE BELOW, INC.

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors

Five Below, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Five Below, Inc. (the Company) as of February 2, 2019 and February 3, 2018, the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the fiscal years in the three-year period ended February 2, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of February 2, 2019 and February 3, 2018, and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended February 2, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of February 2, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 28, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2002.

Philadelphia, Pennsylvania

March 28, 2019

FIVE BELOW, INC.

Consolidated Balance Sheets

(in thousands, except share and per share data)

| | February 2, 2019 | February 3, 2018 |
|---|---------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$251,748 | \$112,669 |
| Short-term investment securities | 85,412 | 131,958 |
| Inventories | 243,636 | 187,037 |
| Prepaid income taxes | 1,337 | 2,264 |
| Prepaid expenses and other current assets | 60,124 | 45,434 |
| Total current assets | 642,257 | 479,362 |
| Property and equipment, net | 301,297 | 180,349 |
| Deferred income taxes | 6,126 | 6,676 |
| Long-term investment securities | — | 27,702 |
| Other assets | 2,584 | 1,619 |
| | \$952,264 | \$695,708 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Line of credit | \$— | \$— |
| Accounts payable | 103,692 | 73,033 |
| Income taxes payable | 20,626 | 25,275 |
| Accrued salaries and wages | 24,586 | 22,906 |
| Other accrued expenses | 104,201 | 43,246 |
| Total current liabilities | 253,105 | 164,460 |
| Deferred rent and other | 84,065 | 72,690 |
| Total liabilities | 337,170 | 237,150 |
| Commitments and contingencies (note 5) | | |
| Shareholders' equity: | | |
| Common stock, \$0.01 par value. Authorized 120,000,000 shares; issued and outstanding 55,759,048 and 55,438,089 shares, respectively. | 557 | 554 |
| Additional paid-in capital | 352,702 | 346,300 |
| Retained earnings | 261,835 | 111,704 |
| Total shareholders' equity | 615,094 | 458,558 |
| | \$952,264 | \$695,708 |

See accompanying notes to consolidated financial statements.

FIVE BELOW, INC.

Consolidated Statements of Operations

(in thousands, except share and per share data)

| | Fiscal Year | | |
|--|-------------|-------------|-------------|
| | 2018 | 2017 | 2016 |
| Net sales | \$1,559,563 | \$1,278,208 | \$1,000,410 |
| Cost of goods sold | 994,478 | 814,795 | 643,373 |
| Gross profit | 565,085 | 463,413 | 357,037 |
| Selling, general and administrative expenses | 377,901 | 306,022 | 243,075 |
| Operating income | 187,184 | 157,391 | 113,962 |
| Interest income, net | 4,623 | 1,458 | 299 |
| Income before income taxes | 191,807 | 158,849 | 114,261 |
| Income tax expense | 42,162 | 56,398 | 42,421 |
| Net income | \$149,645 | \$102,451 | \$71,840 |
| Basic income per common share | \$2.68 | \$1.86 | \$1.31 |
| Diluted income per common share | \$2.66 | \$1.84 | \$1.30 |
| Weighted average shares outstanding: | | | |
| Basic shares | 55,763,034 | 55,208,246 | 54,845,708 |
| Diluted shares | 56,220,864 | 55,561,472 | 55,128,870 |
| See accompanying notes to consolidated financial statements. | | | |

FIVE BELOW, INC.

Consolidated Statements of Changes in Shareholders' Equity

(in thousands, except share and per share data)

| | Common stock | | Additional paid-in capital | Retained earnings (accumulated deficit) | Total shareholders' equity |
|---|--------------|--------|-------------------------------|--|----------------------------------|
| | Shares | Amount | | | |
| Balance, January 30, 2016 | 54,590,641 | \$ 546 | \$ 306,522 | \$ (62,587) | \$ 244,481 |
| Share-based compensation expense | — | — | 11,655 | — | 11,655 |
| Issuance of unrestricted stock awards | 6,781 | — | 280 | — | 280 |
| Exercise of options to purchase common stock | 225,767 | 2 | 3,287 | — | 3,289 |
| Vesting of restricted stock units and performance-based restricted stock units | 123,428 | 1 | — | — | 1 |
| Common shares withheld for taxes | (46,750) | — | (1,904) | — | (1,904) |
| Excess tax benefit related to exercises of stock options | — | — | 1,555 | — | 1,555 |
| Issuance of common stock to employees under employee stock purchase plan | 5,087 | — | 208 | — | 208 |
| Net income | — | — | — | 71,840 | 71,840 |
| Balance, January 28, 2017 | 54,904,954 | 549 | 321,603 | 9,253 | 331,405 |
| Share-based compensation expense | — | — | 16,114 | — | 16,114 |
| Issuance of unrestricted stock awards | 4,464 | — | 238 | — | 238 |
| Exercise of options to purchase common stock | 327,980 | 3 | 9,598 | — | 9,601 |
| Vesting of restricted stock units and performance-based restricted stock units | 229,553 | 2 | — | — | 2 |
| Common shares withheld for taxes | (33,327) | — | (1,504) | — | (1,504) |
| Issuance of common stock to employees under employee stock purchase plan | 4,465 | — | 251 | — | 251 |
| Net income | — | — | — | 102,451 | 102,451 |
| 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 | — | — | 11,807 | — | 11,807 |
| Issuance of unrestricted stock awards | 2,056 | — | 180 | — | 180 |
| Exercise of options to purchase common stock | 145,157 | 1 | 4,026 | — | 4,027 |
| Vesting of restricted stock units and performance-based restricted stock units | 305,201 | 3 | — | — | 3 |
| Common shares withheld for taxes | (113,058) | (1) | (7,989) | — | (7,990) |
| Repurchase and retirement of common stock | (21,810) | — | (1,987) | — | (1,987) |
| Issuance of common stock to employees under employee stock purchase plan | 3,413 | — | 365 | — | 365 |
| Net income | — | — | — | 149,645 | 149,645 |
| Balance, February 2, 2019 | 55,759,048 | \$ 557 | \$ 352,702 | \$ 261,835 | \$ 615,094 |

See accompanying notes to consolidated financial statements.

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

| | Fiscal Year | | |
|---|-------------|------------|-----------|
| | 2018 | 2017 | 2016 |
| Operating activities: | | | |
| Net income | \$ 149,645 | \$ 102,451 | \$ 71,840 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 41,451 | 33,241 | 26,631 |
| Share-based compensation expense | 12,018 | 16,373 | 11,953 |
| Deferred income tax expense (benefit) | 550 | 4,363 | (2,532) |
| Other non-cash expenses | 44 | 138 | 109 |
| Changes in operating assets and liabilities: | | | |
| Inventories | (56,599) | (32,589) | (6,079) |
| Prepaid income taxes | 927 | (1,277) | (211) |
| Prepaid expenses and other assets | (15,655) | (16,366) | (14,875) |
| Accounts payable | 32,866 | 19,809 | (5,451) |
| Income taxes payable | (4,649) | 1,902 | 11,997 |
| Accrued salaries and wages | 1,680 | 12,112 | 3,133 |
| Deferred rent | 12,143 | 15,886 | 7,855 |
| Other accrued expenses | 9,712 | 11,338 | 2,252 |
| Net cash provided by operating activities | 184,133 | 167,381 | 106,622 |
| Investing activities: | | | |
| Purchases of investment securities | (117,371) | (234,856) | (119,746) |
| Sales, maturities, and redemptions of investment securities | 191,619 | 163,501 | 77,776 |
| Capital expenditures | (113,720) | (67,795) | (44,794) |
| Net cash used in investing activities | (39,472) | (139,150) | (86,764) |
| Financing activities: | | | |
| Net proceeds from issuance of common stock | 365 | 251 | 208 |
| Repurchase and retirement of common stock | (1,987) | — | — |
| Proceeds from exercise of options to purchase common stock and vesting of restricted and performance-based restricted stock units | 4,030 | 9,603 | 3,290 |
| Common shares withheld for taxes | (7,990) | (1,504) | (1,904) |
| Excess tax benefit related to exercises of stock options and vesting of restricted and performance-based restricted stock units | — | — | 1,555 |
| Net cash (used in) provided by financing activities | (5,582) | 8,350 | 3,149 |
| Net increase in cash and cash equivalents | 139,079 | 36,581 | 23,007 |
| Cash and cash equivalents at beginning of year | 112,669 | 76,088 | 53,081 |
| Cash and cash equivalents at end of year | \$251,748 | \$ 112,669 | \$ 76,088 |
| Supplemental disclosures of cash flow information: | | | |
| Interest paid | \$3 | \$4 | \$10 |
| Income taxes paid | \$45,589 | \$51,405 | \$31,762 |
| Non-cash investing activities | | | |
| Increase in accounts payable and accrued purchases of property and equipment | \$48,723 | \$3,093 | \$511 |
| See accompanying notes to consolidated financial statements. | | | |

FIVE BELOW, INC.

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

(a) Description of Business

Five Below, Inc. (collectively with its wholly owned subsidiary as the "Company") is a specialty value retailer offering merchandise targeted at the tween and 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 February 2, 2019, operated in 33 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, California and Arkansas. As of February 2, 2019 and February 3, 2018, the Company operated 750 stores and 625 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.

The Company's consolidated financial statements include the accounts of Five Below, Inc. and its subsidiary (1616 Holdings, Inc., formerly known as Five Below Merchandising, Inc.). All intercompany transactions and accounts are eliminated in the consolidation of the Company's and subsidiary's financial statements.

(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 consists of 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 consists of a 53-week fiscal year. References to "fiscal year 2016" or "fiscal 2016" refer to the period from January 31, 2016 to January 28, 2017, which consists of a 52-week fiscal year.

(c) Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with a maturity date of three months or less when purchased to be cash equivalents. Our cash equivalents consist of credit and debit card receivables, money market funds, corporate bonds and municipal bonds, which are classified as cash and cash equivalents in the accompanying consolidated balance sheets. The majority of payments due from banks for third-party credit card and debit card transactions resulting from customer purchases at the Company's retail stores process within 24 to 48 hours, except for transactions occurring on a Friday, which are generally processed the following Monday. Amounts due from banks for these transactions classified as cash equivalents totaled \$7.4 million and \$6.0 million as of February 2, 2019 and February 3, 2018, respectively. Book overdrafts, which are outstanding checks in excess of funds on deposit, are recorded within accounts payable in the accompanying consolidated balance sheets and within operating activities in the accompanying consolidated statements of cash flows. As of February 2, 2019 and February 3, 2018, the Company had cash equivalents of \$215.7 million and \$91.2 million, respectively.

(d) 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 under a line of credit (as defined in note 4). 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 any current or future borrowings under the line of credit approximates their 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 investments in corporate bonds are level 1 while the investments in municipal bonds are level 2. The fair market values of level 2 investments 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 February 2, 2019 and February 3, 2018, 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 February 2, 2019

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Market Value |
|-----------------|-------------------|------------------------------|-------------------------------|-------------------------|
| Short-term: | | | | |
| Corporate bonds | \$83,128 | \$ | —\$ 63 | \$83,065 |
| Municipal bonds | 2,284 | — | 2 | 2,282 |
| Total | \$85,412 | \$ | —\$ 65 | \$85,347 |

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 |

Short-term investment securities as of February 2, 2019 and February 3, 2018 all mature in one year or less.

Long-term investment securities as of February 3, 2018 all mature after one year but in less than three years.

(e) Inventories

Inventories consist of finished goods purchased for resale, including freight, and are stated at the lower of cost and net realizable value, at the individual product level. Cost is determined on a weighted average cost method. Management of the Company reviews inventory levels in order to identify slow-moving merchandise and uses markdowns to clear merchandise. Inventory cost is reduced when the selling price less costs of disposal is below cost. The Company accrues an estimate for inventory shrink for the period between the last physical count and the balance sheet date. The shrink estimate can be affected by changes in merchandise mix and changes in actual shrink trends.

(f) Prepaid Expenses and Other Current
Assets

Prepaid expenses in fiscal 2018 and fiscal 2017 were \$26.1 million and \$17.8 million, respectively. Other current assets in fiscal 2018 and fiscal 2017 were \$34.0 million and \$27.6 million, respectively.

(g) Property and Equipment

Property and equipment are stated at cost. Additions and improvements are capitalized, while repairs and maintenance are charged to expense as incurred.

Depreciation and amortization is recorded using the straight-line method over the shorter of the estimated useful lives of the assets or the terms of the respective leases, if applicable. The estimated useful lives are three to ten years for furniture and fixtures and computers and equipment. Store leasehold improvements are amortized over the shorter of the useful life or the lease term plus assumed extensions, which is generally 10 years. Leasehold improvements located in the distribution centers and the new corporate headquarters are amortized over the shorter of the useful life or the lease term. Depreciation and amortization expense for property and equipment, which is included in selling, general and administrative expenses in the accompanying consolidated statements of operations, was \$41.5 million, \$33.2 million and \$26.6 million in fiscal 2018, fiscal 2017 and fiscal 2016, respectively.

Property and equipment, net, consists of the following (in thousands):

| | February 2, 2019 | February 3, 2018 |
|---|---------------------|---------------------|
| Land | \$7,150 | \$— |
| Furniture and fixtures | 145,254 | 114,394 |
| Leasehold improvements | 166,374 | 133,460 |
| Computers and equipment | 69,739 | 44,923 |
| Construction in process | 81,368 | 15,251 |
| Property and equipment, gross | 469,885 | 308,028 |
| Less: Accumulated depreciation and amortization | (168,588) | (127,679) |
| Property and equipment, net | \$301,297 | \$180,349 |

(h) Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Assets are grouped and evaluated for impairment at the lowest level of which there are identifiable cash flows, which is generally at a store level. Assets are reviewed for impairment using factors including, but not limited to, the Company's future operating plans and projected cash flows. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated undiscounted future cash flows, then an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is based on discounted future cash flows of the asset using a discount rate commensurate with the risk. In the event of a store closure, the Company will record an impairment charge, if appropriate, or accelerate depreciation over the revised useful life of the asset. Based on its Company's most recent analysis, management believes that no impairment of long-lived assets exists for the period ended February 2, 2019.

(i) Deferred Financing Costs

Deferred financing costs are amortized to interest expense over the term of the related credit agreement. Amortization expense in fiscal 2017 and fiscal 2016 was \$40.4 thousand and \$27.0 thousand, respectively. As of February 2, 2019 and February 3, 2018, the Company had an immaterial balance remaining on the balance sheet.

(j) Operating Leases

The Company leases store locations, distribution centers, the corporate headquarters and equipment used in its operations and evaluates and classifies its leases as operating or capital leases for financial reporting purposes. Any assets held under a capital lease are included in property and equipment, net.

Operating lease expense is recorded on a straight-line basis over the lease term. At the inception of a lease, the Company determines the lease term, which includes periods under the exercise of renewal options that are reasonably assured. Renewal options are exercised at the Company's sole discretion. In September 2016, the Company signed a 15 year lease for a new corporate headquarters location in Philadelphia, Pennsylvania. The Company currently occupies approximately 117,000 square feet of office space and will expand into approximately 50,000 square feet of additional office space by no later than 2020. The lease agreement expires in early 2033 with three successive options to renew for additional term up to approximately fifteen years. The distribution center in Olive Branch, Mississippi is leased under a lease agreement expiring in 2022 with options to renew for three successive five-year periods. The distribution center in Pedricktown, New Jersey is leased under a lease agreement expiring in 2025 with options to renew for three successive five-year periods. Generally, the Company's store leases have expected lease terms of ten years, which are comprised of an initial term of ten years or an initial term of five years and one assumed five-year extension, resulting in a ten-year life. The expected lease term is used to determine whether a lease is capital or operating and to calculate straight-line rent expense.

Substantially all of the Company's leases include options that allow the Company to renew or extend the lease term beyond the initial lease period, subject to terms and conditions agreed upon at the inception of the lease. Such terms and conditions include rental rates agreed upon at the inception of the lease that could represent below or above market rental rates later in the life of the lease, depending upon market conditions at the time of such renewal or extension. In addition, the Company's leases may include early termination options.

(k) Capital Leases

The Company establishes assets and liabilities for the estimated construction costs incurred under lease arrangements where the Company is considered the owner for accounting purposes only, or build-to-suit leases, to the extent the Company is involved in the construction of structural improvements or takes construction risk prior to commencement of a lease. Upon occupancy of facilities under build-to-suit leases, the Company assesses whether these arrangements qualify for sales recognition under the sale-leaseback accounting guidance. If the transaction does not qualify for sales recognition under the sale-leaseback accounting guidance, the Company continues to be the deemed accounting owner. As of February 2, 2019, the Company had approximately \$7 million of a capital lease land asset and liability. There were no material capital leases as of February 3, 2018.

(l) Other Accrued Expenses

Other accrued expenses include accrued capital expenditures of \$54.2 million and \$5.0 million in fiscal 2018 and fiscal 2017, respectively.

(m) Deferred Rent and Other

Certain of the Company's operating leases contain either rent holidays and/or predetermined fixed escalations of minimum rental payments during the original and/or extended lease terms. For these leases, the Company recognizes the related rent expense on a straight-line basis over the life of the lease and records the difference between the amounts charged to operations and amounts paid as deferred rent. The life of the lease is the initial term plus assumed extensions. The Company also receives certain lease incentives in conjunction with entering into operating leases. These lease incentives are recorded as deferred rent at the beginning of the lease term and recognized as a reduction of rent expense over the lease term. In addition, certain of the Company's leases contain future contingent increases in rents. Such increases in rent expense are recorded in the period in which such contingent increases to the rents take place.

The following table summarizes the Company's deferred rent and other long-term liabilities balances (in thousands):

| | February 2, 2019 | February 3, 2018 |
|------------------------------|---------------------|---------------------|
| Current: | | |
| Deferred rent ⁽¹⁾ | \$ 8,228 | \$ 5,707 |
| Total current liabilities | \$ 8,228 | \$ 5,707 |
| Long-term: | | |
| Deferred rent | \$ 84,065 | \$ 72,547 |
| Other | — | 143 |

Total long-term liabilities \$84,065 \$72,690

(l) The current portion of deferred rent is included in the other accrued expenses line item in the accompanying consolidated balance sheets.

(n) Share-Based Compensation

The Company measures the cost of employee services received in exchange for share-based compensation based on the grant date fair value of the employee stock award. The Company recognizes compensation expense generally on a straight-line basis over the employee's requisite service period (generally the vesting period of the equity grant) based on the estimated grant date fair value of restricted stock units ("RSUs") and performance-based restricted stock units ("PSUs") and uses the Black-Scholes option-pricing model for grants of stock options.

The fair value of restricted stock awards are based on the closing price of the Company's common stock on the grant date and the fair value of stock options are based on the Black-Scholes option-pricing model utilizing the closing price of the Company's common stock on the grant date as the fair value of common stock in the model. Future share-based compensation cost will increase when the Company grants additional equity awards. Modifications, cancellations or repurchases of awards after the grant date may require the Company to accelerate any remaining unearned share-based compensation cost or incur incremental compensation costs. Share-based compensation cost recognized and included in expenses for fiscal 2018, fiscal 2017 and fiscal 2016, was \$12.0 million, \$16.4 million and \$12.0 million, respectively.

(o) Revenue Recognition

Revenue is 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 are accepted under certain conditions within 14 days of purchase. 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 consumer in net sales. Sales tax collected from customers and remitted to governmental authorities are accounted for on a net basis and, therefore, excluded from sales in the accompanying consolidated statements of operations.

(p) Shipping and Handling Revenues and Costs

The Company includes all shipping and handling revenue from e-commerce sales in net sales. Shipping and handling costs, which are included in cost of goods sold in the accompanying consolidated statements of operations, include both internal and third-party fulfillment and shipping costs related to the Company's e-commerce operations.

(q) Cost of Goods Sold

Cost of goods sold reflects the direct costs of purchased merchandise and inbound freight, as well as store occupancy, distribution and buying expenses. 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 the Company's distribution centers and between store locations. Buying costs include compensation expense for the Company's internal buying organization.

(r) Selling, General and Administrative Expenses

Selling, general and administrative expenses include payroll and other compensation, marketing and advertising expense, depreciation and amortization expense, and other selling and administrative expenses.

(s) Vendor Allowances

The Company receives various incentives in the form of allowances, free product and promotional funds from its vendors based on product purchases and advertising activities. The amounts received are subject to changes in market conditions, vendor marketing strategies and changes in the profitability or sell-through of the related merchandise for the Company. Merchandise allowances are recorded in cost of goods and recognized in the period the related merchandise is sold. Marketing allowances are recorded in selling, general and administrative expenses and are recognized in the period the related advertising occurs to the extent the allowance is a reimbursement that is specific and incremental, and identifiable costs have been incurred by the Company to sell the vendor's products. To the extent these conditions are not met, these allowances are recorded as merchandise allowances.

(t) Store Pre-Opening Costs

Costs incurred between completion of a new store location's construction and its opening (pre-opening costs) are charged to expense as incurred. Pre-opening costs were \$6.5 million, \$6.2 million and \$5.1 million in fiscal 2018, fiscal 2017, and fiscal 2016, respectively, and are recorded in the accompanying consolidated statements of operations based on the nature of the expense.

(u) Advertising Costs

Advertising costs are charged to expense the first time the advertising takes place. Advertising expenses were \$42.2 million, \$30.8 million and \$27.4 million in fiscal 2018, fiscal 2017 and fiscal 2016, respectively, and are included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

(v) Income Taxes

Income taxes are accounted for under the asset-and-liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records a valuation allowance to reduce its deferred tax assets when uncertainty regarding their realizability exists. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

For the fiscal year ended February 3, 2018, the Company recorded a provisional net tax benefit of \$0.5 million related to the impact of the Tax Cuts and Jobs Act ("TCJA"). This provisional tax benefit included a one-time \$1.5 million remeasurement charge of the net U.S. deferred tax assets to the lower enacted U.S. corporate tax rate of 21% and a \$2.0 million tax benefit related to the Company's 2017 blended rate of 33.7% as a result of Section 15 of the Internal Revenue Code. December 22, 2018 marked the end of the measurement period for purposes of SAB 118. As such, the Company has completed the analysis based on legislative updates relating to the U.S. TCJA currently available and recorded no additional tax impacts for the year ended February 2, 2019. While the Company has completed its accounting of the income tax effects of the U.S. TCJA under SAB 118, the related tax impacts may differ, possibly materially, due to changes in interpretations and assumptions that the Company has made, additional guidance that may be issued by regulatory bodies, and actions and related accounting policy decisions the Company may take as a result of the new legislation.

(w) Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

(x) Use of Estimates

The preparation of 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 valuation allowances for inventories, income taxes and share-based compensation expense.

(y) Recently Issued Accounting Standards

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 was 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. The Company plans to adopt this pronouncement in the first quarter of fiscal 2019, coinciding with the pronouncement’s effective date. The Company's ability to adopt this standard depends on various factors including system readiness and completing an analysis of information necessary to quantify the financial statement impact. The Company has established a cross-functional team to implement the pronouncement and the Company has finalized its implementation of a leasing software solution, its assessment of the practical expedients and policy elections offered by the standard, and changes to its business processes, systems and controls to support the adoption of this standard. Additionally, the Company is in the process of developing drafts of its new footnote disclosures required under the new pronouncement that will be disclosed in the Company's Form 10-Q for the first fiscal quarter of 2019. Although the Company is still finalizing the quantitative effects of ASU 2016-02, this pronouncement will impact its statement of operations with additional expenses primarily as it relates to the treatment of certain initial direct lease costs that were previously capitalizable. The Company also expects a significant increase of approximately \$600 million to \$800 million in total assets and total liabilities on its consolidated balance sheets in the period of adoption given that the Company has a significant number of leases for its stores.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 affects all entities that issue share-based payment awards to their employees. This accounting standards update makes several modifications to the accounting for employee share-based payment transactions, including the requirement that the excess income tax benefits or deficiencies that arise when the tax consequences of share-based compensation differ from amounts previously recognized in the consolidated statement of operations be recognized as income tax benefit or expense in the consolidated statement of operations rather than as additional paid-in capital in the consolidated balance sheets. The guidance also clarifies the classification of components of share-based awards on the consolidated statement of cash flows such that excess income tax benefits should not be presented separately from other income taxes in the consolidated statement of cash flows and, thus, should be classified as an operating activity rather than a financing activity as they are under the current guidance. ASU 2016-09 is effective for financial statements issued for annual reporting periods beginning after December 15, 2016 and interim periods within those years. The Company adopted this standard prospectively in the first quarter of fiscal 2017. This standard will result in a decrease or increase to the Company's effective tax rate, net income, and earnings per share based upon the requirement to recognize the excess income tax benefits or deficiencies in the consolidated statements of operations and change the Company's earnings per share calculation to exclude excess tax benefits previously assumed under the treasury stock method. No changes were required related to the classification of employee taxes paid for withheld shares in the Company's consolidated statements of cash flows since the Company has historically classified these within financing cash flows.

In August 2018, the FASB issued ASU 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract." ASU 2018-15 requires implementation costs incurred by customers in cloud computing arrangements to be deferred over the noncancellable term of the cloud computing arrangements plus any optional renewal periods (1) that are reasonably certain to be exercised by the customer or (2) for which exercise of the renewal option is controlled by the cloud service provider. The effective date of this pronouncement is for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years,

and early adoption is permitted. The standard can be adopted either using the prospective or retrospective transition approach. During the third quarter of fiscal 2018, the Company adopted the pronouncement using the prospective transition method and it did not have a significant impact on the Company's financial statements.

(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 on February 4, 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):

| | Fiscal Year 2018 | | Fiscal Year 2017 | | Fiscal Year 2016 | |
|------------------|---------------------|-------------------------------|---------------------|-------------------------------|---------------------|-------------------------------|
| | Amount | Percentage of Net Sales | Amount | Percentage of Net Sales | Amount | Percentage of Net Sales |
| Leisure | \$793,180 | 50.9 % | \$640,961 | 50.1 % | \$499,967 | 50.0 % |
| Fashion and home | 482,424 | 30.9 % | 402,888 | 31.6 % | 311,994 | 31.2 % |
| Party and snack | 283,959 | 18.2 % | 234,359 | 18.3 % | 188,449 | 18.8 % |
| Total | \$1,559,563 | 100.0 % | \$1,278,208 | 100.0 % | \$1,000,410 | 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 fifty-two weeks ended February 2, 2019.

(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 exercise of 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):

| | Fiscal Year | | |
|--|-------------|------------|------------|
| | 2018 | 2017 | 2016 |
| Numerator: | | | |
| Net income | \$ 149,645 | \$ 102,451 | \$ 71,840 |
| Denominator: | | | |
| Weighted average common shares outstanding - basic | 55,763,034 | 55,208,246 | 54,845,708 |
| Dilutive impact of options, restricted stock units, and employee stock purchase plan | 457,830 | 353,226 | 283,162 |
| Weighted average common shares outstanding - diluted | 56,220,864 | 55,561,472 | 55,128,870 |
| Per common share: | | | |
| Basic income per common share | \$2.68 | \$ 1.86 | \$ 1.31 |
| Diluted income per common share | \$2.66 | \$ 1.84 | \$ 1.30 |

The effects of the assumed exercise of stock options outstanding as of February 3, 2018 and January 28, 2017 for 66,624 and 164,440 shares of common stock, respectively, were excluded from the fiscal 2017 and fiscal 2016 calculation of diluted income per common share as their impact would have been anti-dilutive.

The effects of restricted stock units outstanding as of February 2, 2019, February 3, 2018 and January 28, 2017 for 2,315, 13,323 and 3,600 shares of common stock, respectively, were excluded from the fiscal 2018, fiscal 2017 and fiscal 2016 calculation of diluted income per common 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

In 2006, the Company entered into a Loan and Security Agreement (the "Loan and Security Agreement") with Wells Fargo Bank, National Association that included a revolving line of credit with advances tied to a borrowing base. The Loan and Security Agreement was amended and/or restated several times, (as amended and restated, the "Revolving Credit Facility").

The Revolving Credit Facility allows maximum borrowings of \$20.0 million with advances tied to a borrowing base and expires on the earliest to occur of (i) May 16, 2017 or (ii) upon the occurrence of an event of default. The Revolving Credit Facility may be increased to \$30.0 million upon certain conditions. The Revolving Credit Facility includes a \$5.0 million sub-limit for the issuance of letters of credit. The borrowing base is 90% of eligible credit card receivables plus 90% of the net recovery percentage of eligible inventory less established reserves.

The Revolving Credit Facility provides for interest on borrowings, at the Company's option, at (a) a prime rate plus a margin of (i) 0.75% if excess availability is greater than or equal to 75%, (ii) 1.0% if excess availability is less than 75% but greater than or equal to 33% or (iii) 1.25% if excess availability is less than 33% or (b) a LIBOR-based rate plus a margin of (i) 1.75% if excess availability is greater than or equal to 75%, (ii) 2.00% if excess availability is less than 75% but greater than or equal to 33% or (iii) 2.25% if excess availability is less than 33%. The Revolving Credit Facility further provides for a letter of credit fee equal to the LIBOR-based rate plus (i) 1.75% if excess availability is greater than or equal to 75%, (ii) 2.00% if excess availability is less than 75% but greater than or equal to 33% or (iii) 2.25% if excess availability is less than 33%. The Revolving Credit Facility also contains an unused credit facility fee of 0.375% per annum and is subject to a servicing fee of approximately \$12.0 thousand per year.

The Revolving Credit Facility includes a covenant which requires the Company to maintain minimum excess collateral availability of no less than the greater of (i) 10% of the then effective maximum credit and (ii) \$3.0 million. The Revolving Credit Facility also includes customary negative and affirmative covenants including, among others, 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) pay dividends or make distributions or other restricted payments; (vi) engage in mergers or consolidations; or (vii) change the Company's business.

Additionally, the Revolving Credit Facility is subject to payment upon the receipt of certain proceeds, including those from the sale of certain assets, and is subject to an increase in the interest rate on borrowings and the letter of credit fee of 2.0% upon an event of default. Amounts under the Revolving Credit Facility may become due upon certain events of default including, among others, failure to comply with the Revolving Credit Facility's covenants, bankruptcy, default on certain other indebtedness or a change in control.

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, 1616 Holdings, 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, 1616 Holdings, 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 distributions 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 1616 Holdings, Inc., a wholly-owned subsidiary of the Company, and are secured by substantially all of the assets of the Company and 1616 Holdings, Inc.

During fiscal 2018 and fiscal 2017, the Company had no borrowings or interest expense under the Amended Revolving Credit Facility. During fiscal 2016, the Company had no borrowings or interest expense under the Revolving Credit Facility.

As of February 2, 2019 and February 3, 2018, the Company had approximately \$20.0 million available on the line of credit. As of January 28, 2017, the Company had approximately \$20.0 million available on the line of credit of which \$19.7 million was available and \$0.3 million was issued on an outstanding letter of credit obligation.

All obligations under the Amended Revolving Credit Facility and Revolving Credit Facility are secured by substantially all of the Company's assets and are guaranteed by the subsidiary. As of February 2, 2019 and February 3, 2018, the Company was in compliance with the covenants applicable to it under the Amended Revolving Credit Facility and 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. As of February 2, 2019, 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.

The Company's minimum rental commitments under operating lease agreements, including assumed extensions, as of February 2, 2019, are as follows (in thousands):

| Fiscal Year | Retail stores | Corporate office, distribution centers and other | Total |
|-------------|---------------|--|--------------|
| 2019 | \$ 136,858 | \$ 10,529 | \$ 147,387 |
| 2020 | 139,892 | 11,885 | 151,777 |
| 2021 | 133,356 | 11,834 | 145,190 |
| 2022 | 123,858 | 11,441 | 135,299 |
| 2023 | 115,229 | 9,897 | 125,126 |
| Thereafter | 379,150 | 55,071 | 434,221 |
| | \$ 1,028,343 | \$ 110,657 | \$ 1,139,000 |

Rent expense, including base and contingent rent under operating leases, was \$119.0 million, \$98.2 million and \$78.5 million in fiscal 2018, fiscal 2017 and fiscal 2016, respectively. Contingent rents were \$0.6 million, \$0.6 million and \$0.5 million in fiscal 2018, fiscal 2017 and fiscal 2016, respectively.

From February 3, 2019 to March 28, 2019, the Company committed to 19 new store leases with terms of 10 years that have future minimum lease payments of approximately \$35.2 million.

Other contractual commitments

The Company has an executive severance plan that is applicable to certain key employees that provide for, among other things, salary, bonus, severance, and change-in-control provisions.

As of February 2, 2019, the Company has other purchase commitments of approximately \$7.4 million consisting of purchase agreements for materials that will be used in the construction of new stores.

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) Shareholders' Equity

As of February 2, 2019, the Company is authorized to issue 120,000,000 shares of \$0.01 par value common stock and 5,000,000 shares of \$0.01 par value preferred stock. The holders of the common stock are entitled to one vote per share of common stock and are entitled to receive dividends if declared by the board of directors. The preferred stock may be issued from time to time in series as designated by the board of directors. The designations, powers, preferences, voting rights, privileges, options, conversion rights, and other special rights of the shares of each such series and the qualifications, limitations and restrictions thereof shall be designated by the board of directors.

Common Stock

The Company and certain of its pre-IPO shareholders are parties to an Amended and Restated Investor Rights Agreement, which provides for, among other things, certain registration rights, requiring the Company to register shares of our common stock held by such shareholders in the event the Company registers for sale, either for the Company's own account or for the account of others, shares of the Company's common stock in certain offerings. The Five Below, Inc. 2012 Employee Stock Purchase Plan (the "ESPP") is intended to be qualified as an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code of 1986. The number of shares of common stock reserved for issuance, which is subject to other limitations, is 500,000 shares. The ESPP allows eligible employees the opportunity to purchase, subject to limitations, shares of the Company's common stock through payroll deductions at a discount of 10% of the fair market value of such shares on the purchase date. In fiscal 2018, the Company issued 3,413 shares of common stock under the ESPP resulting in proceeds of \$0.4 million and recorded share-based compensation expense of \$32.4 thousand in connection with the ESPP related to the amount of the discount. In fiscal 2017, the Company issued 4,465 shares of common stock under the ESPP resulting in proceeds of \$0.3 million and recorded share-based compensation expense of \$21.3 thousand in connection with the ESPP related

to the amount of the discount. In fiscal 2016, the Company issued 5,087 shares of common stock under the ESPP resulting in proceeds of \$0.2 million and recorded share-based compensation expense of \$19.0 thousand in connection with the ESPP related to the amount of the discount.

(7) 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 February 2, 2019, 3,229,566 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 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 |
|------------------------------------|------------------------|--|---|
| Balance as of January 30, 2016 | 1,088,674 | \$ 26.31 | 7.5 |
| Granted | 51,611 | 39.30 | |
| Forfeited | (47,881) | 36.18 | |
| Exercised | (225,767) | 14.55 | |
| Balance as of January 28, 2017 | 866,637 | 29.60 | 6.7 |
| Granted | — | — | |
| Forfeited | (19,172) | 37.13 | |
| Exercised | (327,980) | 29.27 | |
| Balance as of February 3, 2018 | 519,485 | 29.53 | 5.9 |
| Granted | — | — | |
| Forfeited | (71) | 4.95 | |
| Exercised | (145,157) | 27.73 | |
| Balance as of February 2, 2019 | 374,257 | 30.23 | 5.1 |
| Exercisable as of February 2, 2019 | 326,464 | \$ 29.82 | 4.9 |

The Company did not grant any stock options in fiscal 2018 and fiscal 2017. The fair value of each option award granted to employees in fiscal 2016, including outside directors, is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

| | Fiscal Year | |
|--------------------------|-------------|-------|
| | 2016 | |
| Expected volatility | 47.6 | % |
| Risk-free interest rate | 1.6 | % |
| Expected life of options | 6.4 | years |
| Expected dividend yield | — | % |

The Company uses the simplified method to estimate the expected term of the option. The expected volatility incorporates historical and implied volatility of similar entities whose share prices are publicly available. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The per-share weighted average grant-date fair value of stock options granted to employees in fiscal 2016 was \$18.89. The total intrinsic value of stock options exercised during fiscal 2018, fiscal 2017 and fiscal 2016 was \$9.9 million, \$9.7 million and \$6.4 million, respectively. The aggregate intrinsic value of stock options exercisable and stock options outstanding as of February 2, 2019 was \$31.0 million and \$35.3 million, respectively. In fiscal 2018, fiscal 2017 and fiscal 2016, the Company received cash from the exercise of options of \$4.0 million, \$9.6 million and \$3.3 million, respectively. In fiscal 2016 excess tax benefits from option exercises and vesting of restricted and performance-based restricted stock units were \$1.6 million. Upon option exercise, the Company issued new shares of common stock.

Restricted Stock Units and Performance-Based Restricted Stock Units

All RSUs and PSUs vest in accordance with vesting conditions set by the compensation committee of the Company's board of directors. RSUs granted to date have vesting periods ranging from less than one year to five years from the date of grant. PSUs 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 under the Plan 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 January 30, 2016 | 211,682 | \$ 33.47 | 477,463 | \$ 36.48 |
| Granted | 127,787 | 41.33 | 127,160 | 39.22 |
| Vested | (46,168) | 37.95 | (77,260) | 38.83 |
| Forfeited | (18,125) | 34.84 | (22,807) | 34.20 |
| Non-vested balance as of January 28, 2017 | 275,176 | 36.27 | 504,556 | 36.91 |
| Granted | 158,304 | 40.52 | 147,552 | 39.65 |
| Vested | (88,550) | 34.21 | (141,003) | 38.15 |
| Forfeited | (35,376) | 41.11 | (15,446) | 35.20 |
| Non-vested balance as of February 3, 2018 | 309,554 | 38.48 | 495,659 | 37.43 |
| Granted | 115,411 | 77.28 | 121,333 | 69.59 |
| Vested | (107,695) | 37.98 | (197,534) | 35.69 |
| Forfeited | (24,382) | 43.75 | (3,258) | 69.03 |
| Non-vested balance as of February 2, 2019 | 292,888 | \$ 53.52 | 416,200 | \$ 47.38 |

In connection with the vesting of RSUs and PSUs during fiscal 2018, the Company withheld 113,058 shares with an aggregate value of \$8.0 million in satisfaction of minimum tax withholding obligations due upon vesting. In connection with the vesting of RSUs during fiscal 2017, the Company withheld 33,327 shares with an aggregate value of \$1.5 million in satisfaction of minimum tax withholding obligations due upon vesting. In connection with the vesting of RSUs during fiscal 2016, the Company withheld 46,750 shares with an aggregate value of \$1.9 million in satisfaction of minimum tax withholding obligations due upon vesting.

As of February 2, 2019, there was \$16.1 million of total unrecognized compensation costs related to non-vested share-based compensation arrangements (including stock options, RSUs and PSUs) granted under the Plan. The cost is expected to be recognized over a weighted average vesting period of 2.3 years.

(8) Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon generation of future taxable income during the periods in which temporary differences representing net future deductible amounts become

deductible.

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As of February 2, 2019, no valuation allowance has been provided for net deferred tax assets as management believes that it is more likely than not that the Company will realize all deferred tax assets as of February 2, 2019.

For the fiscal year ended February 3, 2018, the Company recorded a provisional net tax benefit of \$0.5 million related to the impact of the TCJA. This provisional tax benefit included a one-time \$1.5 million remeasurement charge of the net U.S. deferred tax assets to the lower enacted U.S. corporate tax rate of 21% and a \$2.0 million tax benefit related to the Company's 2017 blended rate of 33.7% as a result of Section 15 of the Internal Revenue Code. December 22, 2018 marked the end of the measurement period for purposes of SAB 118. As such, the Company has completed its analysis based on legislative updates relating to the U.S. TCJA currently available and recorded no additional tax impacts for the year ended February 2, 2019. While the Company has completed its accounting of the income tax effects of the U.S. TCJA under SAB 118, the related tax impacts may differ, possibly materially, due to changes in interpretations and assumptions that the Company has made, additional guidance that may be issued by regulatory bodies, and actions and related accounting policy decisions the Company may take as a result of the new legislation.

The components of the income tax expense are as follows (in thousands):

| | Fiscal Year | | |
|--------------------|-------------|----------|----------|
| | 2018 | 2017 | 2016 |
| Current: | | | |
| Federal | \$33,297 | \$45,867 | \$40,053 |
| State | 8,315 | 6,168 | 4,900 |
| | 41,612 | 52,035 | 44,953 |
| Deferred: | | | |
| Federal | 2,000 | 4,606 | (1,772) |
| State | (1,450) | (243) | (760) |
| | 550 | 4,363 | (2,532) |
| Income tax expense | \$42,162 | \$56,398 | \$42,421 |

The reconciliation of the statutory federal income tax rate to the Company's effective income tax rate is as follows:

| | Fiscal Year | | |
|-------------------------------------|-------------|--------|--------|
| | 2018 | 2017 | 2016 |
| Statutory federal tax rate | 21.0 % | 33.7 % | 35.0 % |
| State taxes, net of federal benefit | 2.8 | 2.4 | 2.4 |
| Other ⁽¹⁾ | (1.8) | (0.6) | (0.3) |
| | 22.0 | 35.5 | 37.1 |

(1) Other line includes excess tax benefits relating to share-based payment accounting.

The effective tax rate for fiscal 2018 compared to fiscal 2017 was primarily driven by the impact of tax reform as a result of the TCJA and the adoption of 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 rather than as additional paid-in capital in the consolidated balance sheets. The effective tax rate for fiscal 2017 compared to fiscal 2016 was primarily driven by discrete items, which included the impact of the adoption of ASU 2016-09 and the impact of tax reform as a result of the TCJA.

The tax effects of temporary differences that give rise to deferred tax assets and liabilities are (in thousands):

| | February 2, 2019 | February 3, 2018 |
|---------------------------|---------------------|---------------------|
| Deferred tax assets: | | |
| Inventories | \$9,633 | \$7,370 |
| Deferred revenue | 472 | 387 |
| Accrued bonus | 3,553 | 595 |
| Deferred rent | 24,136 | 20,353 |
| Other | 4,848 | 5,114 |
| Deferred tax assets | 42,642 | 33,819 |
| Deferred tax liabilities: | | |
| Property and equipment | (35,642) | (25,843) |
| Other | (874) | (1,300) |
| Deferred tax liabilities | (36,516) | (27,143) |
| | \$6,126 | \$6,676 |

The Company had no material accrual for uncertain tax positions or interest or penalties related to income taxes on the Company's balance sheets as of February 2, 2019 and February 3, 2018, 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 fiscal 2018, fiscal 2017, or fiscal 2016.

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.

(9) Employee Benefit Plan

The Company has a 401(k) Retirement Savings Plan and employees can contribute up to the maximum amount allowed under law. The Company may make discretionary matching and profit sharing contributions, which vest over a period of five years from each employee's commencement of employment with the Company. During fiscal 2018, fiscal 2017 and fiscal 2016, the Company made matching contributions of \$1.2 million, \$0.5 million and \$0.5 million, respectively.

(10) Segment Reporting

The Company evaluates performance internally and manages the business on the basis of one operating segment; therefore, it has only one reportable segment. All of the Company's identifiable assets are located in the United States. Set forth below is data for the following groups of products: leisure, fashion and home, and party and snack. The percentage of net sales represented by each product group for each of the last three fiscal years was as follows:

| | Percentage of Net Sales | | |
|------------------|-------------------------|---------|---------|
| | Fiscal Year | | |
| | 2018 | 2017 | 2016 |
| Leisure | 50.9 % | 50.1 % | 50.0 % |
| Fashion and home | 30.9 % | 31.6 % | 31.2 % |
| Party and snack | 18.2 % | 18.3 % | 18.8 % |
| Total | 100.0 % | 100.0 % | 100.0 % |

Leisure includes items such as sporting goods, games, toys, tech, books, electronic accessories, and arts and crafts. Fashion and home includes items such as personal accessories, "attitude" t-shirts, beauty offerings, home goods and storage options. Party and snack includes items such as party and seasonal goods, greeting cards, candy and other snacks, and beverages.

(11) Quarterly Results of Operations and Seasonality (Unaudited)

Quarterly financial results for fiscal 2018 and fiscal 2017 were as follows: (in thousands except for per share data).

| | Fiscal Year 2018 ⁽¹⁾ | | | | Fiscal Year 2017 ^{(1) (2)} | | | |
|------------------------------------|---------------------------------|------------------|-------------------|------------------|-------------------------------------|------------------|-------------------|------------------|
| | Fourth Quarter | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Net sales | \$602,684 | \$312,823 | \$347,734 | \$296,322 | \$504,832 | \$257,175 | \$283,320 | \$232,881 |
| Gross profit | \$244,005 | \$102,090 | \$121,752 | \$97,238 | \$207,490 | \$83,631 | \$98,506 | \$73,786 |
| Net income | \$89,262 | \$13,516 | \$25,063 | \$21,804 | \$67,377 | \$9,879 | \$16,804 | \$8,391 |
| Basic income per common share | \$1.60 | \$0.24 | \$0.45 | \$0.39 | \$1.22 | \$0.18 | \$0.30 | \$0.15 |
| Diluted income per common share | \$1.59 | \$0.24 | \$0.45 | \$0.39 | \$1.21 | \$0.18 | \$0.30 | \$0.15 |

(1) The sum of the quarterly per share amounts may not equal per share amounts reported for the fiscal year due to rounding.

The Company operates 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. Fiscal (2) 2017 consists of a 53-week fiscal year and the fourth quarter of fiscal 2017 included an extra week, representing the 53rd week.

The Company's business is seasonal in nature and demand is generally the highest in the fourth fiscal quarter due to the fourth quarter holiday season and, therefore, operating results for any fiscal quarter are not necessarily indicative of results for the full fiscal year. To prepare for the holiday season, the Company must order and keep in stock more merchandise than it carries during other parts of the year. The Company expects inventory levels, along with an increase in accounts payable and accrued expenses, generally to reach their highest levels in the third and fourth fiscal quarters in anticipation of the increased net sales during the year-end holiday season. As a result of this seasonality, and generally because of variation in consumer spending habits, the Company experiences fluctuations in net sales and working capital requirements during the fiscal year.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. 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 13a-15(e), as of the end of the period covered by this Annual Report on Form 10-K 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 Annual Report on Form 10-K 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 February 2, 2019 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management, including the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of internal control over financial reporting as of February 2, 2019. Management based this assessment on criteria for effective internal control over financial reporting described in "Internal Control - Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management determined that, as of February 2, 2019, the company maintained effective internal control over financial reporting at a reasonable assurance level.

The effectiveness of the company's internal control over financial reporting as of February 2, 2019 has been audited by KPMG LLP, our independent registered public accounting firm, as stated in their report dated March 28, 2019 that appears below.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Five Below, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Five Below, Inc.'s (the Company) internal control over financial reporting as of February 2, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 2, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of February 2, 2019 and February 3, 2018, the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the fiscal years in the three-year period ended February 2, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated March 28, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Philadelphia, Pennsylvania
March 28, 2019

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ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 is included in the “Board of Directors–Nominees for Election to the Board of Directors for a Three-Year Term Expiring at the 2022 Annual Meeting,” “Board of Directors–Members of the Board of Directors Continuing in Office for a Term Expiring at the 2020 Annual Meeting,” “Board of Directors–Members of the Board of Directors Continuing in Office for a Term Expiring at the 2021 Annual Meeting,” “Executive Officers,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Board of Directors–Code of Business Conduct and Ethics,” “Board of Directors–Committees of the Board of Directors,” and “Board of Directors–Director Nomination Process” sections of our proxy statement for the 2019 annual meeting of shareholders, which will be filed with the Securities and Exchange Commission, and is incorporated by reference herein.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is included in the “Compensation Discussion and Analysis,” “Executive Compensation,” “Board of Directors–Director Compensation,” “Board of Directors–Board Leadership Structure and Board’s Role in Risk Oversight,” “Board of Directors–Compensation Committee Interlocks and Insider Participation” and “Compensation Committee Report” sections of our proxy statement for the 2019 annual meeting of shareholders, which will be filed with the Securities and Exchange Commission, and is incorporated by reference herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required by this Item 12 is included in the “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” sections of our proxy statement for the 2019 annual meeting of shareholders, which will be filed with the Securities and Exchange Commission, and is incorporated by reference herein.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 is included in the “Certain Relationships and Related Party Transactions” and “Board of Directors–Director Independence” sections of our proxy statement for the 2019 annual meeting of shareholders, which will be filed with the Securities and Exchange Commission, and is incorporated by reference herein.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 is included in the “Proposal 2, Ratification of Independent Registered Public Accounting Firm” section of our proxy statement for the 2019 annual meeting of shareholders, which will be filed with the Securities and Exchange Commission, and is incorporated by reference herein.

PART IV

ITEM 15. EXHIBITS AND CONSOLIDATED FINANCIAL STATEMENTS SCHEDULES

(a) 1. Consolidated Financial Statements

The consolidated financial statements of the Company filed as part of this Annual Report on Form 10-K are included in Part II, Item 8 beginning on page 44.

2. Consolidated Financial Statements Schedules

All schedules are omitted because they are not applicable or because the required information is either not material or is included in the Consolidated Financial Statements or Notes thereto.

3. Exhibits

Exhibit

Number Description

3.1 Amended and Restated Articles of Incorporation of Five Below, Inc., as currently in effect (incorporated by reference to Exhibit 3.1 of the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on September 3, 2015)

3.2 Amended and Restated Bylaws of Five Below, Inc., as currently in effect (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 5, 2018)

4.1 Form of Specimen Stock Certificate (incorporated by reference to Exhibit 4.1 of Amendment No. 3 to the Registration Statement on Form S-1 (File No. 333-180780) filed with the Securities and Exchange Commission on July 9, 2012)

10.1 Five Below, Inc. 2012 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 29, 2012)

10.2 Five Below, Inc. Amended and Restated Equity Incentive Plan (incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on September 1, 2016)

10.3 Five Below, Inc. 2016 Performance Bonus Plan (incorporated by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on September 1, 2016)

10.4a Form of Non-Qualified Stock Option Agreement (Employees) (used for options granted prior to May 21, 2013) (incorporated by reference to Exhibit 10.10 of the Registration Statement on Form S-1 (File No. 333-180780) filed with the Securities and Exchange Commission on April 18, 2012)

10.4b Form of Non-Qualified Stock Option Agreement (Employees) (used for options granted after May 21, 2013 and prior to June 30, 2014) (incorporated by reference to Exhibit 10.3 of the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on September 10, 2013)

10.4c Form of Non-Qualified Stock Option Agreement for Employees (used for options granted after June 30, 2014) (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on June 30, 2014)

10.5a Form of Non-Qualified Stock Option Agreement (Executives) (used for options granted prior to May 21, 2013) (incorporated by reference to Exhibit 10.11 of the Registration Statement on Form S-1 (File No. 333-180780)

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10.5b Form of Non-Qualified Stock Option Agreement (Executives) (used for options granted after May 21, 2013 and prior to June 30, 2014) (incorporated by reference to Exhibit 10.4 of the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on September 10, 2013)

10.5c Form of Non-Qualified Stock Option Agreement for Executives (used for options granted after June 30, 2014) (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on June 30, 2014)

10.6 Form of Award Agreement for Restricted Shares under the Five Below, Inc. Equity Incentive Plan (Employees) (incorporated by reference to Exhibit 10.14 of Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-180780) filed with the Securities and Exchange Commission on June 12, 2012)

10.7 Form of Award Agreement for Restricted Shares under the Five Below, Inc. Amended and Restated Equity Incentive Plan (Directors) (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on March 11, 2013)

10.8 Form of Award Agreement for Restricted Stock Units (incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on June 30, 2014)

10.9 Form of Award Agreement for Restricted Stock Units (incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on December 5, 2014)

10.10 Form of Award Agreement for Restricted Stock Units (incorporated by reference to Exhibit 10.14 of the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 24, 2016)

10.11 Form of Award Agreement for Restricted Stock Units (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 5, 2018)

10.12 Form of Award Agreement for Performance-Based Restricted Stock Units (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 5, 2018)

10.13 Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.17 of Amendment No. 1 to the Registration Statement on Form S-1 (File No. 333-180780) filed with the Securities and Exchange Commission on May 24, 2012)

10.14 Letter Employment Agreement, dated October 14, 2010, by and between Thomas Vellios and Five Below, Inc. (incorporated by reference to Exhibit 10.19 of the Registration Statement on Form S-1 (File No. 333-180780) filed with the Securities and Exchange Commission on April 18, 2012)

10.15 Amendment to Employment Agreement, dated September 28, 2011, by and between Thomas Vellios and Five Below, Inc. (incorporated by reference to Exhibit 10.20 of the Registration Statement on Form S-1 (File No. 333-180780) filed with the Securities and Exchange Commission on April 18, 2012)

10.16 Amendment, dated February 18, 2015, to Employment Letter, dated October 14, 2010, as amended, by and between Thomas Vellios and Five Below, Inc. (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 23, 2015)

10.17 Letter Employment Agreement, dated April 16, 2012, by and between Kenneth R. Bull and Five Below, Inc. (incorporated by reference to Exhibit 10.21 of the Registration Statement on Form S-1 (File No. 333-180780) filed with the Securities and Exchange Commission on April 18, 2012)

Letter Employment Agreement, dated December 10, 2014, by and between Michael Romanko and Five Below, Inc. (incorporated by reference to Exhibit 10.23 of the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 26, 2015)

Employment Letter and Non-Disclosure Agreement, each dated June 8, 2014, by and between Joel D. Anderson and Five Below, Inc. (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on June 12, 2014)

10.20 Amendment to Employment Letter, dated December 4, 2014, by and between Joel D. Anderson and Five Below, Inc. (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 4, 2014)

10.21 Second Amendment to Employment Letter, dated July 20, 2015, by and between Joel D. Anderson and Five Below, Inc. (incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on September 3, 2015)

10.22 Employment Letter and Non-Disclosure Agreement, each dated May 21, 2014, by and between Eric M. Specter and Five Below, Inc. (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on June 12, 2014)

10.23 Amendment to Employment Letter, dated March 11, 2016, by and between Eric M. Specter and Five Below, Inc. (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on March 17, 2016)

10.24 Fourth Amended and Restated Loan and Security Agreement, dated May 10, 2017, among Five Below, Inc., 1616 Holdings, Inc., and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on May 11, 2017)

10.25 Employment Letter, dated April 6, 2017, by and between George S. Hill and Five Below, Inc. (incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on June 2, 2017)

10.26 Five Below, Inc. Executive Severance Plan (incorporate by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on June 2, 2017)

10.27 Employment Letter, dated October 29, 2017, by and between David Makuen and Five Below, Inc. (incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on December 1, 2017)

10.28 Compensation Policy for Non-Employee Directors (incorporated by reference to Exhibit 10.28 of the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 22, 2018)

10.29 Employment Letter, dated February 19, 2019, and Non-Solicitation, Non-Disclosure, Non-Compete and Proprietary Information Agreement by and between Judy Werthausser and Five Below, Inc. (filed herewith)

21.1 List of Subsidiaries of the Company (filed herewith)

23.1 Consent of KPMG LLP (filed herewith)

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 (filed herewith)

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 (filed herewith)

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 (filed herewith)

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 (filed herewith)

The following financial information from this Annual Report on Form 10-K, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Balance Sheets as of February 2, 2019 and February 3, 2018; (ii) the Consolidated Statements of Operations for Fiscal Years

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2018, 2017, and 2016; (iii) the Consolidated Statements of Changes in Shareholders' Equity For Fiscal Years 2018, 2017, and 2016; (iv) the Consolidated Statements of Cash Flows for Fiscal Years 2018, 2017, and 2016 and (v) the Notes to Consolidated Financial Statements, in each case, tagged in detail.

† Management contract or compensatory plan or arrangement.

* 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 Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under those sections.

ITEM 16. FORM 10-K SUMMARY

Optional disclosure not included in this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in Philadelphia, Pennsylvania, on the 28th day of March 2019.

FIVE BELOW, INC.

By: /s/ Joel D. Anderson
 Name: Joel D. Anderson
 Title: President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|--|-------------------|
| /s/ Thomas G. Vellios Thomas G. Vellios | Non-Executive Chairman of the Board | March 28, 2019 |
| /s/ Joel D. Anderson Joel D. Anderson | President, Chief Executive Officer and Director (Principal Executive Officer) | March 28, 2019 |
| /s/ Kenneth R. Bull Kenneth R. Bull | Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) | March 28, 2019 |
| /s/ Kathleen S. Barclay Kathleen S. Barclay | Director | March 28, 2019 |
| /s/ Catherine E. Buggeln Catherine E. Buggeln | Director | March 28, 2019 |
| /s/ Michael F. Devine III Michael F. Devine III | Director | March 28, 2019 |
| /s/ Daniel J. Kaufman Daniel J. Kaufman | Director | March 28, 2019 |
| /s/ Dinesh Lathi Dinesh Lathi | Director | March 28, 2019 |
| /s/ Richard L. Markee Richard L. Markee | Director | March 28, 2019 |
| /s/ Thomas M. Ryan Thomas M. Ryan | Director | March 28, 2019 |
| /s/ Ronald L. Sargent Ronald L. Sargent | Director | March 28, 2019 |

Exhibit Index

No. Description

- 10.29† Employment Letter, dated February 19, 2019, and Non-Solicitation, Non-Disclosure, Non-Compete and Proprietary Information Agreement by and between Judy Werthausser and Five Below, Inc.
- 21.1 List of Subsidiaries of the Company
- 23.1 Consent of KPMG LLP
- 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 Annual Report on Form 10-K, formatted in XBRL (Extensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Balance Sheets as of February 2, 2019 and February 3, 2018; (ii) the Consolidated Statements of Operations for Fiscal Years 2018, 2017, and 2016; (iii) the Consolidated Statements of Changes in Shareholders' Equity For Fiscal Years 2018, 2017, and 2016; (iv) the Consolidated Statements of Cash Flows for Fiscal Years 2018, 2017, and 2016 and (v) the Notes to Consolidated Financial Statements, in each case, tagged in detail.

† Management contract or compensatory plan or arrangement

* 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 Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under those sections.