

# FIVE Earnings Call Transcript

**Date: 2025-12-03**

**Quarter: 3**

Operator: Good day, and welcome to the Five Below Third Quarter 2025 Earnings Conference Call. All participants will be in a listen-only mode. After today's presentation, there will be an opportunity to ask questions. Press star then one on your touch-tone phone. Please note this event is being recorded. I would now like to turn the conference over to Christiane Pelz, Vice President, Investor Relations. Please go ahead.

Christiane Pelz: Good afternoon, everyone, and thanks for joining us today for Five Below's third quarter 2025 financial results conference call. On today's call are Winnie Park, Chief Executive Officer, and Dan Sullivan, Chief Financial Officer and Treasurer. After management has made their formal remarks, we will open the call to questions. I need to remind you that certain comments made during this call may constitute forward-looking statements and are made pursuant to and within the meaning of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended. Such forward-looking statements are subject to both known and unknown risks and uncertainties that could cause actual results to differ materially from such statements. Those risks and uncertainties are described in the press release and our SEC filings. The forward-looking statements today are as of the date of this call, and we do not undertake any obligation to update our forward-looking statements. In this presentation, we will refer to our SG&A; expenses. For us, SG&A; means selling, general and administrative expenses including payroll and other compensation, marketing and advertising expense, depreciation and amortization expense, and other selling and administrative expenses. Additionally, we will be discussing certain non-GAAP financial measures. A reconciliation of these items to U.S. GAAP are included in today's press release. If you do not have a copy of today's press release, you may obtain one by visiting the Investor Relations page of our website at [fivebelow.com](http://fivebelow.com). I will now turn the call over to Winnie.

Winnie Park: Hello, and thanks so much for joining us. We're excited to share our third quarter results which exceeded our expectations. Before we do, I want to extend a warm welcome to our two new leaders, Dan Sullivan, our Chief Financial Officer, who you'll hear from shortly, and Michelle Israel, our Chief Merchandising Officer, both of whom joined us in early October. Dan and Michelle are seasoned, highly experienced executives who've integrated into our amazing Five Below management team incredibly well. We're excited to support their contributions, as we continue to grow and redouble our efforts to amplify our unique value proposition. I would also like to thank Ken Bull who served as interim CFO for his amazing partnership. We're excited to have Ken transition back into his role as COO as we enter the critical holiday season. Now turning to our fantastic results. In Q3, we delivered our second consecutive quarter of over \$1 billion in sales and double-digit comparable sales growth. Our customers continue to recognize Five Below as the destination for the kid, and the kid in all of us. I'm really proud of the work our teams are doing in support of our boss, the customer. We are seeing clear proof points that our customer-centric strategy is working. And as a result, we've taken up our outlook for the remainder of the year which Dan will discuss in more detail shortly. In Q3, net sales grew 23% with comparable sales growth of over 14% driven by both transactions and ticket. With disciplined expense management, adjusted diluted earnings per share grew 62% over last year to \$0.68. Store growth continued to be strong at 9% over last year. We welcomed 49 net new stores to the Five Below family, including our new store in Rogers, Arkansas, which became our best ever fall grand opening.

And we ended the quarter with over 1,900 stores. The success of our new store openings continued into the fourth quarter with our entry into the Pacific Northwest, where each of our eight new stores set all-time grand opening records. Notably, all these grand openings were supported by marketing and in-store activations that drew thousands of customers on opening day. The strong positive reception to Five Below in these new markets strengthens the conviction we have for the significant growth ahead of us. The results in the quarter again exceeded our expectations, and we were very excited to see broad-based growth across merchandising departments and our entire network of stores. This growth is a result of maniacally executing our customer-centric strategy, which is supported by three core pillars: The first pillar is a sharpened focus on the customer, the kid. And for us, this means understanding the trends, life stages, and how to influence Gen Alpha, Gen Z, and millennials. We deepened our understanding of what our customer wants, how we can build connections with them, and ultimately, how they shop our stores. This relationship with the customer is our true north and underpins our merchandising, marketing, and store operations approach. The second pillar is delivering a connected customer journey. Acknowledging that awareness begins on digital channels and social media and ends with an amazing in-store experience. By curating compelling stories in social, that lead our customers to pre-shop on our website, culminating in a trip to our stores, the customer should see our big ideas come to life with a consistent look and feel. The third pillar is coordinated cross-functional execution. In our go-to-market for our six curtain-up moments from New Year's and Valentine's to holiday, the way we work has fundamentally changed as the team aligns earlier resulting in the full engagement of our 1,900 plus store managers prior to launch on merchandising, marketing, and the critical flow of newness to our stores. Underpinning these pillars is a mindset of operating with urgency and discipline as we saw in our tariff mitigation efforts earlier in the year while also remaining relentless in our focus on efficiency. We now operate with an approach of test, learn, and ramp to quickly introduce new products, price points, and processes. Test, learn, and ramp ensures that our bias towards action is also informed by insights and analysis. To achieve our results, the crew across Five Below pulled together as a unit, a true team who shared one focus, the customer, our boss. I'm incredibly grateful for our team's passion, grit, and all-in engagement on working cross-functionally in service of our customers. Their hard work and commitment delivered these results. Thank you, Five Below crew. In Q3, our customer-centric strategy allowed us to deliver a sharpened value proposition. Our merchandising teams were unleashed to deliver a continuous flow of newness across product categories. We weren't reliant on a single trend, as the majority of our departments comped positive. Also, we took a disciplined approach to curation and managing the breadth and depth of our buys, resulting in better in-stocks for our big ideas throughout the season, like Halloween decor. With the focus on big ideas such as hero license programs, the merchandising teams coordinated to deliver unified statements like Wicked, which incorporates products from nearly every merchandising category. Also, our merchandising teams are relentlessly focused on value and simplifying our pricing. Today, value is not just about \$5 and below, but ensuring we pack value into \$7, \$10, and \$15 plus items. We are able to incorporate these multiple price points throughout the department and the store to simplify the shopping experience. And our customers have responded well. This change allowed us to disband the Five Beyond area and leverage this space to drive seasonal business. For example, we featured the last Gas of Summer in that area, with back to school in the front when we kicked off the quarter. The newness and curated product stories that our teams merchandised were amplified by more effective marketing as we shifted our marketing channels and content to be more relevant for our target customers. We increased our investment in social media, moving spend away from traditional channels, resulting in traffic growth both online and in our stores. We also changed our content development strategy from studio-produced to creator-produced, engaging social influencers and amplifying user-generated content. We also renewed our creative online and in stores to deliver a single campaign with a distinct brand-right look and feel. The third quarter results are a real testament to our store crew who have embraced the mantra that the customer is our boss. The stores are where customer experiences come to life. We improved the store experience in several ways, namely better collaboration with our store teams, garnering better feedback from customers, simplifying operations, and investing in labor to ensure our shelves are stocked, enabling the product stories to come to life. The execution of our strategy accelerated from Q2 to Q3. This flywheel effect is evidenced in our sales

results, which were driven by growth in transactions and ticket. We packed the quarter with two big curtain-up moments, back to school and Halloween. We flowed newness throughout the store, with a focus on ideas we're able to test and ramp. Again, the key to our execution is the way we work cross-functionally, with tight coordination between merchandising, supply chain, distribution, marketing, and stores. This tight coordination also made the difference in our growth by new stores. Our 2025 fleet is exceeding expectations as we worked as a close-knit team for the ultimate curtain-up, a store brand opening. We invested in grand opening marketing and activations in stores that were fully merchandised and crews who are well-staffed and better trained. Looking ahead, the strong performance over the previous three quarters serves as a valuable proof point that our customer-centric strategies are starting to work. As we prepare for the holidays, we will continue to surprise and delight our customers with unbelievable deals for decor, gifts, and stocking stuffers from gingerbread houses and advent calendars to an army of large nutcrackers, beauty bundles, toys, and candy. Our performance is a testament that our unique place in retail of being the destination for the kid and the kid in all of us is a compelling, sustainable value proposition. While we are at the early stages of our journey, our progress to date is clear. And the team and I are highly committed to and extremely excited for the growth that lies ahead for our business. With that, I will turn it over to Dan to discuss more details about our results and updated outlook for the fourth quarter and year. Take it away, Dan.

Dan Sullivan: Thanks, Winnie, and good afternoon, everyone. I'm thrilled to be joining the Five Below team and excited to contribute to its continued success. I look forward to working with everyone on this call as well as our investor community. I'll begin my remarks with a review of our third quarter 2025 results, and then discuss our outlook for the fourth quarter and full year. My comments will refer to results on an adjusted GAAP basis. As Winnie mentioned, we were very pleased with our third quarter performance, which exceeded our expectations for both the top and bottom line. In the quarter, we saw accelerated comparable sales growth that was driven fairly equally by transaction and ticket gains. Importantly, the improving effectiveness of our marketing spend was evidenced in our traffic gains, which accelerated as we exited the quarter. Operational execution across our stores and distribution centers was also strong, and we saw the benefit of better inventory flow and improved in-stock positions on shelf. We allocated additional labor both in support of the stronger growth and as a part of our pre-holiday preparations. We also saw a solid improvement in shrink results from our August counts, reflecting the initial benefits from our broader mitigation initiatives. The heightened sales growth converted well, delivering 110 basis points of adjusted operating income margin gains and 62% adjusted earnings per share growth year over year. Now turning to the results for the quarter. Net sales increased 23% to just over \$1 billion, underpinned by a strong comparable sales increase of over 14%. We were pleased to see this growth was led equally by increases in both comparable transactions and comparable tickets. In the quarter, we successfully drove more traffic to our stores, which led to better than expected transaction growth. Comparable ticket growth was fueled by AUR gains reflecting the successful execution of our rounded whole price strategy, while also curating great value above \$5 as we move these items in line with their departments. Our comparable sales growth was widespread across most departments, new and retained customers, and all household income cohorts. Our new store performance was equally compelling with productivity levels in the mid-80s, which was in line with our expectations. We opened 49 net new stores across 26 states compared to 82 new stores in the third quarter last year. Year over year, we grew our store count by 9% and ended the quarter with just over 1,900 stores. As our performance in Arkansas and even more recently in the Pacific Northwest affirms, we remain bullish about the growth opportunities that lie ahead. Adjusted gross profit increased 26% to \$352 million or 33.9% in rate of sale, an increase of approximately 70 basis points compared to the third quarter last year. Adjusted gross margin accretion was driven primarily by fixed cost leverage and improved shrink results, that were partially offset by the net impact of unmitigated tariffs. Adjusted SG&A; expenses totaled \$307 million in Q3, 29.5% of sales, which represented a 40 basis point decrease compared to last year's third quarter. This was driven by fixed cost leverage on the strong comp sales partially offset by higher incentive costs. Adjusted operating income grew over 63% in the third quarter to \$45 million versus \$28 million in the third quarter last year, and adjusted operating margin increased approximately 110 basis points to 4.3%. Net interest income was about \$6 million for the third quarter or approximately \$3 million above last year, due mostly to a higher average cash

balance throughout the quarter. Adjusted net income was \$38 million and adjusted earnings per share was \$0.68, and both grew 62% year over year. We ended the third quarter in a strong cash position with approximately \$536 million in cash, cash equivalents, and investments. Inventory was approximately \$1.1 billion and average inventory on a per store basis increased nearly 25% versus the third quarter last year. As we had expected, this increase was primarily due to our strategic decision to accelerate receipts in response to the global trade environment. We're very pleased with our inventory position as we head into the holiday season. We expect that the growth in our average inventory per store will begin to moderate by the end of the fiscal year. Now turning to our outlook. Based on our strong performance to date, we are increasing our outlook for the fourth quarter and full year. We now expect total sales in the range of \$1.58 to \$1.61 billion or growth of 14.7% at the midpoint versus last year's fourth quarter. Comparable sales are expected to increase between 6-8%. While it's early, we are pleased with the start to the holiday season, underpinned by Black Friday weekend sales that were in line with our expectations. Adjusted operating margin at the midpoint is expected to be 15.8%, inclusive of higher incentive costs and unmitigated tariff costs. We have not changed our assumptions for shrink associated with the results of the January physical inventory counts. Net interest income is expected to be approximately \$5 million. Assuming an effective tax rate of about 26% at their respective midpoints, we expect adjusted net income to be \$192 million and adjusted diluted earnings per share to be \$3.45 on 55.6 million diluted shares outstanding. As a reminder, this does not include the impact of share repurchases, if any. For the full year, sales are now expected to be in the range of \$4.62 to \$4.65 billion with a comparable sales increase of 9.4% to 10.1%. On a two-year stack basis, this represents an approximate 7% comparable sales growth at the midpoint. Adjusted operating margin is expected to be approximately 8.9% at the midpoint. Net interest income is now expected to be approximately \$22 million with a 26% effective tax rate. Adjusted diluted earnings per share for fiscal 2025 is now expected to be \$5.8 at the midpoint, representing growth of 15%. Capital expenditures excluding the impact of tenant allowances are expected to be approximately \$200 million, which reflects 150 net new store openings and continued investments in systems and infrastructure. We're proud of the work the team has done over the past year to drive meaningful year-over-year top and bottom line growth and a much-improved outlook for fiscal 2025 versus the beginning of the year. As we head into the critical holiday season, we are confident in our ability to execute our customer-centric strategy and continue to deliver growth in the years to come. And with that, I'll turn the call back over to the operator to start the Q&A session.

Operator: Thank you. We will now begin the question and answer session. You may reenter the question queue. And our first question for today will come from Chuck Grom with Gordon Haskett. Please go ahead.

Chuck Grom: Hey, thanks very much. Congrats on a great quarter. Winnie, your sales per store are on track to hit about \$2.4 million this year. That's getting you back to 2021 levels. Can you remind us how your best stores perform today on sales productivity and what opportunities you see to drive sales even higher in the coming years?

Winnie Park: Hey, Chuck. Thank you so much. We are very excited to see our average store productivity return to historic highs. And I think that for us, what's been exciting to see is that across our network of stores, we're actually seeing really great performance regardless of kind of age of store or type of store. And I would say that there is consistency in what we're seeing in terms of the broad-based growth and what's driving that growth within the stores. That broad-based growth is really being driven first by a focus on the customer. And with that focus on the customer comes a really great focus on what they want. I think our assortments are geared towards younger customers, geared towards trends. And, again, I use the word assortment. It's not about a single item, but it goes across a broad range of categories and departments. So we're excited for that. We finally have the ability to actually talk about it vis a vis marketing, and that's worked, especially what we've planted within social media has driven traffic to the stores, and we've seen really nice traffic growth and growth both in new customers as well as retention. So that's been terrific. And then finally, I think that what's really worked in terms of growth is our expansion of the idea of what value looks like. We still curate a great assortment roughly 80% of the assortment. It's \$5 and below. But we took a lot of attention for those items that were above \$5. And specifically packing a ton of value at seven, ten, fifteen, and we inserted

those items in line and really disbanded the five beyond area. We're getting more productivity with the disbanding of five beyond because we're able to offer more seasonal stories and other things that are relevant to the customer. And we basically put the product in line with how they shop. So those are the real drivers of what's getting us to those great productivity levels.

Christiane Pelz: Thanks, Chuck.

Operator: Next question. The next question will come from Matthew Boss with JPMorgan. Please go ahead.

Matthew Boss: Thanks and congrats on a great quarter. So Winnie, could you speak to the monthly progression of comps over the course of the quarter? Maybe help bridge the upside drivers to the 14% comp relative to the 5% to 7% guidance initially. Then if you could elaborate on the start to the fourth quarter? And if there's the potential for a similar scenario. Meaning guidance for the fourth quarter implies a sequential moderation. Have you seen that yet? Is that embedded over the rest of the holiday season?

Winnie Park: Thanks so much for that question, Matt. Dan's gonna lean in here.

Dan Sullivan: Hey, Matt. How are you? Thank you for the question. I'll start with where you ended, which is how we thought about the fourth quarter. Largely over the course of the quarter, the monthly year-over-year growth is fairly consistent. If you think about it relative to our guide range and our midpoint, you don't see month-over-month spikes. A lot of that, obviously, is what we're cycling from a year ago, but it's a fairly consistent growth pattern. That's number one. I would say number two, and we talked about this in the opening remarks, we're really pleased with the start to the season. That start is essentially the month of November and then obviously Black Friday weekend. And again, from a pure performance basis relative to how we're thinking about the holiday we're pleased. So we sit here today, certainly not chasing anything that didn't happen over the weekend and a pretty consistent month-over-month comp growth profile. If I go backwards to the start of your question on Q3, you would see actually a very similar trend in terms of comp growth. And I think what excites us the most is that our performance, and I'll define that particularly I think about traffic growth, actually strengthened as the quarter went on. So we exited the quarter with traffic growth month over month, the highest level we had seen. So all in all, we're in a really good place, and we think we've got a really good view on the fourth quarter.

Christiane Pelz: Thanks, Matt. Next question, please. The next question will come from Edward Kelly with Wells Fargo. Please go ahead.

Edward Kelly: Yes. Hi, good morning and congratulations on a great quarter. Winnie, I wanted to start, your results have been phenomenal, obviously. And it obviously begs the question around, you know, how you're thinking about lapping all of this next year. I know you talked about the strength being, you know, broad-based. But could you call out maybe some of the bigger trends that you think have been helping results? How you think about, you know, how those trends roll into next year and any continued benefit that you might see. And then, you know, what's out there that you're excited about? And I guess what I'm really kinda trying to ask at the end of the day is do you think you could comp the comp, you know, even against some of these results next year? Thank you.

Winnie Park: Thanks so much, Ed. Thanks for the question. And I want to start actually with what we put in place this year and we've seen with each quarter an acceleration of this flywheel effect. It really starts with customer focus. And with the customer focus, I think what we've done is really leaned broader trends and ideas that resonate with Gen Alpha, Gen Z, as well as millennials. So that it's really leaning into lifestyle statements as opposed to a single item. That thought process in terms of how we merchandise and how we go after trends has lifted across our departments, and it's something we will continue to pursue. And I think the second piece is when with that focus on the customer is being highly aware of the fact that their journey with our product and with our product stories starts in digital and online through social. And so how do we, you know, we just started doing this. We started to redirect our marketing spend away from traditional channels into social. And as we learn more, and as we generate more content both from users as well as influencers, and align earlier between merchandising and marketing, we think we've seen this beautiful flywheel effect that has driven traffic to stores as well as introduction to new customers. And so those two pieces, as a one plus one equals three. And I think next year, how much more can we do on that customer connected journey? We haven't touched on

omni. We're really just beginning. And on marketing even, you know, getting down to the individuals, we've just begun to capture customer records. And so we haven't really in earnest done anything in marketing in terms of reaching out one to one or personalization, much less really directing even, hey, new product launches. You bought beauty last year. Here's something else that's happening. So those are the types of things that we have we're seeding for next year and that we've begun this year. And then I will finally say that, you know, the customer has given us license to play in price points beyond \$5. And this was a concerted effort to move items above \$5 back in line in their department and we really wanted to test and see what the reset would be, and it's been very good. We're excited about this. And as long as the team stays focused on relative value and packing a ton of value within the products, that are above 5, at seven, 10, 15. We think that there is a lot more we can do there. In terms of customer giving us permission to really do more outside of the price bands we traditionally have played in. Thank you so much, Ed.

Operator: Thank you. Next question will come from Michael Lasser with UBS. Please go ahead.

Michael Lasser: Evening. Thank you so much for taking my question. Is there any scenario where you would start off the year next year guiding to a negative comp? And even if you started out the year thinking your comp was gonna be flat given the performance this year, what would be the puts and takes of the model, especially as you anniversary and have to incorporate things like tariff costs in the first half of next year? Is there a framework you can give us as we try and calibrate our models for 2026?

Dan Sullivan: Yes. Hey, Michael, it's Dan. Thanks for the question. Look, it's obviously at this stage premature to get ahead of ourselves for next year, let alone on a quarterly basis. But totally appreciate your question. I would say a couple of things. One is just the principle at which we are operating this business which is with a clear growth orientation and I think you've heard the prepared remarks and in Winnie's answers, the underlying drivers of that. Secondly, Winnie talked a lot about the importance of what this price action has signaled to us in terms of response of customer. We also have to remember, we don't lap the price increase until half two of next year. So mechanically that's going to be a tailwind for us. For most of first half of the year. So look, we'll have a lot more to say about the business when we get to March and really talk in detail about next year. But I think where we sit today is confident in our ability to grow on top of growth. And you're right, we will navigate a tariff headwind as well in the first half of the year. There's a lot of puts and takes that we're going to have to face into when we build the plan and ultimately share the details. But I certainly want to emphasize the growth orientation we have and ultimately, the operating profit leverage that we expect that growth to deliver. And again, we'll have more to say on that in March.

Christiane Pelz: Right. Thanks, Michael. Your next question will come from Simeon Gutman with Morgan Stanley. Please go ahead.

Lauren: Hi, this is Lauren on Simeon. Thanks for taking our question. Our question is on traffic versus ticket. You mentioned they were fairly equal for the third quarter. You share if the strength was driven by maybe new customers versus returning customers?

Winnie Park: Thank you. Hi, there. So actually the growth was equal between transactions and ticket. And one of the drivers of transactions certainly was traffic growth. And we saw growth about equal between the new customers and our ability to retain customers and bring them back. So and we've seen that pattern actually in the last two quarters, pretty consistently. And then beyond that, of course, you know, I think that we've been really excited with the tickets increasing, specifically with customers accepting price and really shopping across the range of price. It's been terrific to see that and not limiting themselves just to items at \$5 and below.

Lauren: Thanks, Lauren.

Christiane Pelz: Next question. The next question will come from Kate McShane with Goldman Sachs. Please go ahead.

Kate McShane: Hi, good afternoon. Thanks for taking our question. We wanted to ask a little bit more about licensing. It's very clear that licensing has a much bigger presence in the store across all different price points. We just wondered if there was a way to quantify how much that's been integrated into the assortment, if it's attracting a different customer, and if any of these products are how many of these products are exclusive to Five Below?

Winnie Park: Thanks so much, Kate. Licensing has always played a really critical role in terms of adding not just a branded element, but something really special that the customer looks for within Five Below. I will say that what is different about how we approach licensing is looking at how we collaborate with licensees and bring full assortments across multiple types of product. So, you know, a good example of this is Wicked and the fact that you can find everything from beauty products to ready-to-wear products within the same assortment. And so this takes, you know, kind of working all the way back to the team at Wicked and Universal and thinking through with them how do we bring the story to life. That's an approach, this collaborative approach, that I think is gonna be meaningful to us on a go-forward basis. And so for us, it's constantly monitoring what new releases, especially with films. And with shows are coming out. And then staying very, very close to other trend ideas and things that are happening out there. And I'm just the one thing I can say about my team is they get trend. They live on trend. And we now are kind of orchestrating all of that energy into single statements. Thank you so much, Kate.

Operator: Next? The next question will come from John Heinbockel with Guggenheim. Please go ahead.

John Heinbockel: Winnie, two things. Can you talk about sort of your product priorities over the next year right? I know product development has been a key one. And then secondly, right, are you now finding vendors who or is there a big opportunity vendors who would not have sold to you before either because now you've got brand awareness or scale and are now sourcing that product?

Winnie Park: Thank you so much, John. So I'll start with your first question around product priorities. I am super excited to have Michele Israel join the team. And I think that, you know, it's gonna be wonderful to get a new perspective with an amazing team that I said, you know, lives and breathes trend and has really, really close historical relationships with our vendors to kind of bring the best app to market. I think on a go-forward basis, our duty as merchants is really leaning into the broader lifestyle trends that we see out there. And not getting caught being too reliant on a single item. And that really has been one of the underlying success factors of the quarter. And will certainly be something that we want to pursue on a go-forward basis. We also think there are new opportunities and new ideas that frankly, we house them currently, but we don't do a lot to distort them. Ideas like party and celebration. And so we're always looking for how better can we serve the customer and their needs. And with that as our beginning point, we're constantly curious about what's out there and what more we can do. And a good example just of this past quarter was lounge. You know, it was a small idea that we distorted. And it certainly has taken off. In terms of vendors, we are seeing I've mentioned before, we've got some great relationships, but we're definitely seeing more vendors come to the table with greater brand recognition and our ability to really do a three sixty marketing effect so that we can play up new ideas. And it's not just about putting the product on the shelf, but it's great in-store display. And it really works back from how we tell the story in digital and social. And working in partnership with them. So we're really pleased with some of our new vendor introductions like LEGO and also, again, working more closely with licensed product. And so it's a journey, but there's a lot more to come. Thank you for your question, John. Next question?

Operator: The next question will come from Zhihan Ma with Bernstein. Please go ahead.

Zhihan Ma: Hi, thank you for taking my question. So first of all, near-term question just on Q4. Can you talk about the near-term trends you're seeing relative to the guidance? Is there still an element of conservatism in the Q4 guide? And secondly, longer term, if the current trend continues, right, if you manage to comp this comp next year and going forward, does that change your view on the pace of new store openings from here? Thank you.

Dan Sullivan: Yes. Thank you for the question. Look, no, I wouldn't say there's conservatism in the guide. I think what we've tried to do here is be thoughtful. And what we're balancing is two distinct forces, right? A business with clear momentum that exited the third quarter with a pronounced growth profile to it. But we all know that the holidays are just different. The size and scale and magnitude of the business, the time period upon which it happens, the competitive lens, which this all needs to be viewed through, and a bit of uncertainty around the ultimate consumer. And where they are at as well and where will they be across the holidays. So there's always going to be clear puts and takes within a

guide, hence the range. But I wouldn't want to categorize anything at this point as conservative. We've tried to be really thoughtful. In terms of the new store growth plan for this business, I think what you're seeing right now is what really good execution looks like. And it's not about how many stores can we open. It's about how many great stores can we. And when you see the results that we described in this quarter, particularly in the Pacific Northwest, which was just staggering what really, really good execution looks like and how the customer responds. That's what we're going after. We think that number is one fifty. That's the number today. Could it change? Of course. But, ultimately, we wanna be great at launching new stores and that's going to dictate the pace.

Christiane Pelz: Great. Thank you. Next question, please. The next question will come from Scott Ciccarelli with Truist. Please go ahead.

Scott Ciccarelli: Good afternoon, guys. One question and hopefully one clarification. First, can you provide more details or maybe some examples around the marketing changes you've made because it sounds like there's a real step function change on that front. And then secondly, one more question about the 4Q comp cadence. You know, are not expecting much monthly volatility in your guide. Does that mean November was in that 6% to 8% range?

Dan Sullivan: I'll take the second question, Scott, and then I'll hand it to Winnie on the marketing. The short answer is yes. The month and the holiday have lined up to where we would have expected them to be. Going into now that the second half of the holiday season in line with our guide.

Winnie Park: And then in terms of the marketing change, Scott, what we've done is actually redirect the spend into channels that we think are most relevant with young customers. And so while we were doing social, for instance, before, we've just we've distorted the spend in social and really gone after better curated storytelling in conjunction with our merchandising team. So it's really merchandising and marketing working in unison. And so that has actually been terrific. We also tested a catalog for Q4, a toy catalog which we're super excited about. It went to our best customers. And again, this is about marketing mix, and evaluating what works, what resonates, and getting the best possible ROAS. And we're doing all those things currently. Thank you, Scott.

Operator: Thank you. The next question will come from Spencer Hanis with Wolfe Research. Please go ahead.

Spencer Hanis: Good afternoon. Thanks for the question. You mentioned that traffic accelerated as you exited the quarter. Can you just talk about what is driving? And then in terms of elasticities from the price increases you've taken, have you seen any change in sort of the customer response to that?

Winnie Park: Yes. So I'll take the traffic question. So we have seen really great acceleration of traffic and it is we started this journey with moving marketing spend into social. And into digital, and it really was starting in Q2. And as we saw the results in the ROAS and the traffic increase, week in, week out, we continue to pull that. And that's really what we believe has driven the traffic. And it's not just about the level of spend, but it really is about the content. And generating good, good content. So we went from more studio-produced content to creator content and, again, seeing really great results. We also really pay attention to what's happening in social and user-generated content. And play into things that, you know, consumers are excited about, like the rainbow challenge. And leaning into this. So it's really at trying to speak to Gen Alpha and Gen Z and millennials in the most effective way.

Dan Sullivan: And then to the second part of your question on unit performance over the quarter, we didn't see any real trends from what we saw in Q2. So said another way, the consumer response, the unit degradation, it remains well above what we had originally modeled, which is super encouraging for us and no material change from the second quarter.

Winnie Park: I will say the only difference in terms of what we saw was we did make the move this quarter in terms of inserting items that were above \$5 in line. And saw good response to that as well.

Operator: The next question will come from Paul Lejuez with Citi. Please go ahead.

Paul Lejuez: Hey. Thanks, guys. Can you quantify the performance in products that are priced above \$5 just curious about the year-over-year change? And then I think you mentioned that the majority of the departments comp positive. With such a strong comp for the quarter. I was kind of surprised to hear that. So curious what was not comping positive? And then last, just curious how you're thinking about traffic versus ticket for the fourth quarter within that comp guidance? Thanks.

Dan Sullivan: Yes. So I'll let me try to unpack it from where you ended. In the fourth quarter, we've

essentially expect current trends to continue. It will be a ticket-driven growth profile as a headline, I would say that first. Think transactions though will provide growth in the quarter. But it will be ticket-led. And we've essentially contemplated a very similar trend as what I spoke about earlier. In terms of what drives the ticket and overall unit performance. So I'll start with that. Winnie, did you want to?

Winnie Park: No, I was just going to respond to the point in terms of what didn't comp. So we had less than a handful of departments that didn't comp, and these were, in large part, intentional. In terms of we were seeing that the residents of these particular departments were down trending, and so we intentionally said you know what? We're gonna go ahead and comp them down so that we can put the dollars into things that really work. The other piece of it was we were hit in certain areas, by tariffs and where we couldn't source product that we thought had the right price value equation. And again, that landscape continues to change. With the global trade environment and how it changes.

Christiane Pelz: Great. Thanks, Paul. Next question, please.

Operator: Next question will come from Michael Montani with Evercore ISI. Please go ahead.

Michael Montani: Hey, good evening. Thanks for taking the question. I just wanted to ask a two-parter. First, if you could just unpack a little bit in the third quarter, the dynamics with shrink. We thought there could have been some upside to the reserve there. It doesn't sound like that happened. And then also SG&A, in the quarter, we thought there might have been a bit more leverage given the strong comp. And then for 4Q, if we're correct, looks like two forty bps of EBIT margin contraction at the midpoint. And I think maybe tariffs could be 200 bps of that. But just wanted to see if there's any offset there from leverage given the 7% comp is well above 3% that we think you'd need to lever?

Dan Sullivan: Yes, let me take them in order. So in terms of shrink, Mike, we did have a pickup in the third quarter. It was about 70 basis points of a tailwind in the quarter. Which we're super encouraged by. That is a great initial indicator that a tremendous amount of energy and focus and effort of this organization bore bear some fruit in the quarter. It's early. Shrink is a challenge, of course. And we're going to stay on it, but we were really encouraged, to see that performance. It was about two-thirds of our fleet that was counted in the quarter. And we'll hit the other third in January. So encouraged by that. In terms of the fourth quarter, look, I think we have to go back and sort of remind ourselves what was our initial view of the quarter. What we had initially profiled was low single-digit growth, and with that low single-digit growth, about three twenty points of year-over-year operating margin declines. That was our initial view. We've updated that view now. We're calling for mid-single-digit growth and about, you're right, two forty basis points of year-over-year decline. So the two drivers of the decline are not news, of course. Right? It's the higher incentive cost, which got higher in the fourth quarter. That's what that third quarter comp will do for you. And the tariff headwinds year over year, it's actually got a little bit better. So the way I would think about the fourth quarter is the year-over-year headwinds are not new. It's something we've certainly been transparent and talked about. We're now delivering about \$70 million of incremental sales and that \$70 million is flowing through the mid-thirty percent, which we think is a really good number for us. So I'll leave it there. Thanks.

Winnie Park: Thanks. Next question, please.

Operator: Your next question will come from Jeremy Hamblin with Craig Hallum Capital Group. Please go ahead.

Jeremy Hamblin: Thanks. And I'll add my congratulations on the impressive results. Just want to come back here to the gross margins a little bit. So I think 33.9% adjusted gross margins maybe the best the company's ever had in a Q3 70 basis points year over year. I think you'd come into the quarter expecting 160 basis point impact from tariffs. Just trying to understand as we look forward and think about the implications here, and some drag for Q4, but we've also had a change in tariff policy as it relates to China and I think about 10 percentage points there of change. As we look ahead, has the gross margin outlook gotten a little bit better? And then just in terms of what's kind of gone on here in Q3 in record gross margins, just trying to understand that a little bit given you haven't had kind of a pickup yet on the shrink accrual rates?

Dan Sullivan: Yes, great. Thank you for the question. I appreciate that. Look, let me start with the tariff piece of it. Because you're right. Based on the executive order signed in early November, there is a 10% reduction in the reciprocal tariff, if you will. That does not affect our 2025 results. Because, you know, we're obviously already baked in terms of products and what will flow through in COGS. So

there'll be no tailwind from that. I think your point is fair, though, on the margin profile itself. And I think what I would say is in both the third and the fourth quarter, the tariff headwinds, while meaningful year over year, were a bit lower than what we had profiled. And I think that speaks to the amazing work the team has done in attacking this topic all through the cost lever and through the strategic price discussion that Winnie mentioned. And so we're really pleased with that. The overall tariff headwind is looking smaller than what we had profiled most recently, let alone initially in the year. So you've got a lot of puts and takes, happening in the margin profile. I think ultimately, what you saw in the third quarter is the shrink benefit. Flow run through. That's your 70 basis points of year-over-year gains. I think everything else leverage and some of these headwinds was a push. We don't have any shrink assumptions baked into our fourth quarter preview. So you're not seeing any pickup there nor are you seeing any headwinds. So that's the margin story. Hopefully, that's answered your question. Thank you. Christiane Pelz: Next question, please. The next question will come from Anthony Chukumba with Loop Capital Markets. Please go ahead.

Anthony Chukumba: Thank you so much for taking my question and congrats on a very, very strong quarter. I guess my question so you said that the comp was roughly split between traffic and ticket. Maybe this is a difficult to parse on the ticket side, but how much of that was your price adjustments as opposed to maybe like mix shift to some of your higher-priced items, particularly the above \$5 items? Thank you.

Winnie Park: So, hi, Anthony. Thanks for your question. So, yes, the pickup was in our comps was attributed to both increase in transactions and ticket that were about equal. On the ticket front, I should kind of unpack a little bit what we're seeing. We are seeing higher AURs and it's being driven by a mix of different factors. One is we did have a strategic pricing strategy that rounded up and down the simplification of price. Actually, we were able to maintain through that the same level of product that was being offered at five and below from the same quarter last year. So there was no change there. However, the receptivity at the five and above, we saw really nice momentum and growth. Double-digit growth in terms of the pickup there. And it's thus leading to our higher AUR. And when you look at that, it really is coming from, one, smart decisions about where we did price up packing enough value so the relative value of the items were really great. And then secondly, again, putting those items in line. So if you're in the room department and you're shopping for, you know, pillows, you might see a \$35 mirror. And by putting that in the line as opposed to putting it in the 5 beyond area in the back of store, the customer definitely responded better. And so those are some of the kind of strategic actions that we took, and the customer voted for, you know, growth in those five and above items. Hope that answers your question. Thank you so much.

Operator: The next question will come from Joe Feldman with Telsey Advisory Group. Please go ahead.

Joe Feldman: Yes. Thanks for taking the question guys and congrats on the quarter. I wanted to ask where do you see opportunities in the merchandise mix? Like I'm curious now with the new chief merchant Michelle Israel, coming in, you know, what her initial feedback might be, like, where there are some opportunities to lean in more, maybe pull back? If you could share any color on that would help.

Winnie Park: Thank you so much, Joe. And, you know, we're excited to have Michelle on board. She started in October so early days. And I think what's really exciting is the fact that the team, the merchandising team that we have here who are working with Michelle are really just experts and pros. They're amazing. And I think what we did with that team is something that Michelle would continue which is to unleash their energy and their excitement over chasing down the best trends in the market and the best value for money that they can find. And, again, focus on that kid. And so I, you know, early days in terms of what take the assortment on a go-forward basis, but there are always opportunities. Within the current assortment that we've got in terms of levels of product, looking at the depth of buys and refining that. But we're just excited to see that the customer is, again, responding to so much of the assortment, and we really have taken much more of a broad-based approach as opposed to trying to hang our hat on one thing, and a wide range of prices and value. And so we're gonna continue to push the envelope on all those fronts. And the last piece I will say is the team has done a great job of bringing newness into the assortment in a disciplined fashion. And that constant flow of newness is what customers want. Thank you so much.

Operator: Next question. The next question will come from David Bellinger with Mizuho. Please go ahead.

David Bellinger: Hey. Thanks. Really nice results. I got the toy catalog, by the way. So it says a lot about where my kids are spending our money. Another question on the branded items. We've seen much more of that in the stores lately, LEGO, LEGO Stitch, SpongeBob. As you get more into those, how do you think about the competitive forces, especially as you break above, you know, the \$5 price point, some \$10.15 dollars items? You start moving into this area where, you know, a Walmart or a Target does very well. So it's how do you plan to keep your edge versus those larger value-oriented players? Thank you.

Winnie Park: Thanks so much, David, and thank you for being a loyal customer and thank your kids for that. Branded items have always been part of the mix. I think what I'm really amazed by is the discipline with which our teams look at price value and relative value. And so for us, that is achieved through a lot of exclusive and working very, very closely with the vendors. And being very precise about if it's a Lego, if it's a Stitch, what do our customers want? What do they respond to? And then, again, it's bringing a presentation together. So that it's not just another item on a shelf, really, it there's a wow statement. And we've been working very closely with the vendors to bring together, you know, visual merchandising marketing visual marketing in the stores that create presentations and ranges. So that approach, I think, is kind of our special sauce. And it really goes back to value and how to get that relative value and be the best value in the marketplace. Thank you so much.

Christiane Pelz: Next question. The next question will come from Seth Sigman with Barclays. Please go ahead.

Seth Sigman: Hey, everyone. I wanted to ask about the trends that you're seeing throughout the quarter in terms of seasonal events versus just everyday business? Maybe help us understand the growth that you're seeing across through those different types of periods? And then I also just wanted to clarify on the quarter to date commentary, I think I heard a comment that traffic accelerated exiting the quarter, but then you also said quarter to date is in line with the comps range, the guidance for the fourth quarter. Which would be a deceleration. So I think investors are just trying to reconcile that. Thank you.

Dan Sullivan: Yeah. Hi, Seth. Thanks for the questions. I'll start and then I'll hand it to Winnie. Two distinct comments and I apologize if it was unclear. So what we were saying was the traffic performance across Q3 built month over month. We exited the quarter with traffic growth that had accelerated and it was our biggest month-over-month traffic gain that we had seen. I was not making that comment about the holiday, the fourth quarter that we're in. What I was saying with respect to the fourth quarter was now one month in and with Black Friday and Black Friday weekend behind us, I was answering the question that our performance is in line with our expectation and in fact in line with how we had contemplated the guide. So hopefully, that clears that up. Winnie?

Winnie Park: Trends in terms of seasonal events versus everyday business. We have these six curtain-up moments that really celebrate these moments in the customer's life. But we take advantage of those curtain-up moments to really drive newness throughout the assortments. And so for us, it's less episodic about seasonal events and activations and much more about the everyday business. We know looking forward to the fourth quarter, that we're a destination for that last-minute gift and the last-minute stocking stuffer. So we do we're looking forward to that surge the last couple of weeks before the holiday, which, you know, is kind of a pattern that we've been able to repeat. So looking forward to all of that, but it's the everyday business that really drives us. Hope that answers your question. Thank you, Seth.

Operator: Next question will come from Brian Nagel with Oppenheimer. Please go ahead.

Brian Nagel: Hi, good afternoon. Great quarter. Congratulations. So I'll ask two really quick questions here. The first, just with respect to tariffs, as we're looking at the results now or the tariffs or at least the tariffs that are now known, are those fully reflected in what we're seeing in trends at Five Below? Then my second question, you know, looking recognize you've done a fantastic job of really repositioning the job, the business internally. But from an external standpoint, have you has there been any shift in the competitive environment that's helped to bolster results at Five Below lately?

Dan Sullivan: Well, I'll start with the tariff question. I want to make sure I understand it correctly. But look, our guide certainly contemplates further tariff pressures and headwinds in the fourth quarter. I think we've put an original guide out that we expected that number to be about two twenty-five basis points in the quarter. We think it'll be slightly less than that now going back to the comments made earlier about the tremendous work the team has done mitigate this. And of course, the great results we're seeing on receptivity to the price actions that we took. So it'll be a bit less of a headwind. So it is contemplated in the quarter. I think as we're thinking about the future here, even in this operating environment, I would just remind everyone that while we have largely mitigated these tariff implications at the unit level, which is a tremendous result, some of the costs that we have incurred are trapped in inventory obviously, and we'll release as we get into half one of next year. So we're not out of the tariff woods by any means, but it is fully reflected in both our actuals to date and in our fourth quarter outlook.

Winnie Park: And then, Brian, with regards to the external environment and the competitive environment, I think what has actually shifted is our approach and we have redoubled our efforts to be a destination for kids. It is resonant in everything we do from product to marketing, and I dare say there is not a player out there like us in retail that focuses on kids at great value. And I think that that is a competitive differentiator that we're now shouting about. And we're telling the customers what we offer. And we're telling them in a way in which they listen. And so I think that's been the big shift for us is, you know, adding that bit of marketing and redoubling and doubling down on kids. As our core. Thank you so much.

Operator: Thank you. Your next question will come from Philip Lee with William Blair. Please go ahead.

Philip Lee: Thanks everyone and happy holidays. So it sounds like the improved inventory flow and in-stock levels has been a nice driver of some of the upside you've seen this year. How do you think about ways to further optimize inventory from here to keep that momentum rolling? And then should we be embedding some sort of more meaningful improvement in turns over the next year or so? Thank you all.

Winnie Park: Thanks so much, Philip. We've been I'm really proud of the team in terms of what we've been able to do with inventory, especially in the back half of the year. Actually, throughout the year, the flow has gotten better and better. That's come through a lot of alignment between the teams, a live discussion about when we secure product and literally when does it land in the stores and how is it gonna land in the stores. And I think for us, there's always room for improvement. And we'll look at this even further. We are leveraging AI in terms of inventory management, but I think there's a lot more we could be doing even further upstream between merchandising and planning. And so that's part of what we're looking forward to with Michelle joining us is connecting all the dots along that journey. Thank you so much. And I think that is our last.

Operator: Yep. Concludes our question and answer session. I would like to turn the conference back over to Ms. Winnie Park for closing remarks. Please go ahead.

Winnie Park: Thank you so much. We are really excited to bring the magic of Five Below home for the holidays. And I really believe that Five Below is the destination for the kid and the kid in all of us. We aspire to be the greatest little toy, candy, and gift store in America. This holiday. And we're also really proud to continue our partnership with Toys for Tots for the sixteenth year so that we can make holiday special for even more kids. I really want to thank all of you for your continued support and we're looking forward to seeing all of you all in our stores and wish you and your families a wonderful holiday.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.