

Ollie's Bargain Outlet (OLLI)

\$92.12 (As of 06/03/20)

Price Target (6-12 Months): **\$106.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 06/02/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: D

Growth: B

Momentum: B

Summary

Shares of Ollie's Bargain have risen and outpaced the industry in the past six months. Management is optimistic about business model of "buying cheap and selling cheap," and remains focused on cost containment, improving store productivity and expansion of customer reward program. These have been contributing to the company's performance. Notably, both the top and the bottom line continued to increase year over year in first-quarter fiscal 2020, and also beat the consensus mark, despite COVID-19 impact. The company saw comparable sales turning positive by the end of the quarter, which to an extent offset the steep decline witnessed somewhere in the middle of the quarter due to the pandemic. Further, the company has noted that initial sales for the second quarter remained strong. However, margin remains the key area to watch.

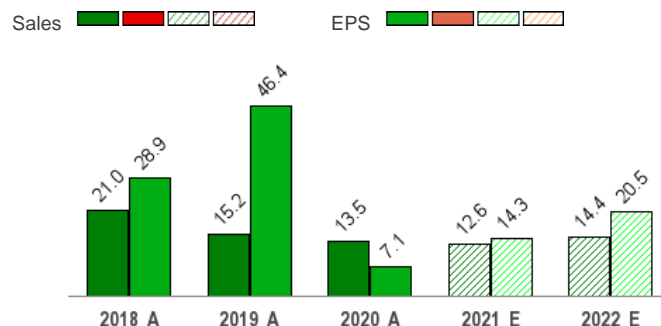
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$98.93 - \$28.83
20 Day Average Volume (sh)	1,693,117
Market Cap	\$5.9 B
YTD Price Change	41.1%
Beta	1.35
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<u>Consumer Products - Staples</u>
Zacks Industry Rank	Top 17% (43 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	40.0%
Last Sales Surprise	11.8%
EPS F1 Est- 4 week change	18.4%
Expected Report Date	08/26/2020
Earnings ESP	0.0%
P/E TTM	46.3
P/E F1	41.1
PEG F1	1.7
P/S TTM	4.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	416 E	474 E	432 E	566 E	1,813 E
2021	349 A	385 E	371 E	481 E	1,585 E
2020	325 A	334 A	327 A	422 A	1,408 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.69 E	\$0.69 E	\$0.61 E	\$1.08 E	\$2.70 E
2021	\$0.49 A	\$0.47 E	\$0.47 E	\$0.85 E	\$2.24 E
2020	\$0.46 A	\$0.35 A	\$0.41 A	\$0.74 A	\$1.96 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/03/2020. The reports text is as of 06/04/2020.

Overview

Founded in 1982 and headquartered in Harrisburg, PA, Ollie's Bargain Outlet Holdings, Inc. is a value retailer of brand name merchandise at drastically reduced prices. The company offers products principally under Ollie's, Ollie's Bargain Outlet, Good Stuff Cheap, Ollie's Army, Real Brands Real Cheap!, Real Brands! Real Bargains!, Sarasota Breeze, Steelton Tools, American Way and Commonwealth Classics. As of May 2, 2020, the company operated 360 outlets in 25 states.

The company, which came out with its IPO in July 2015, offers products under the following merchandise category —

Housewares (15% of 2019 Net Sales): cooking utensils, dishes, appliances, plastic containers, cutlery, storage and garbage bags, detergents and cleaning supplies, cookware and glassware, fans and space heaters, candles, frames and giftware.

Food (10.8%): packaged food including coffee, bottled non-carbonated beverages, salty snacks, condiments, sauces, spices, dry pasta, canned goods, cereal and cookies.

Bed and bath (10.5%): household goods including bedding, towels, curtains and associated hardware.

Books and stationery (8.6%): novels, children's, how-to, business, cooking, inspirational and coffee table books along with DVDs, greeting cards and various office supplies and party goods.

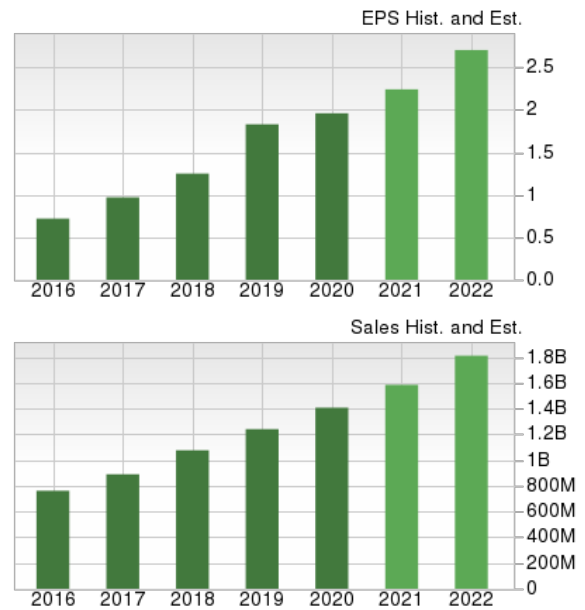
Floor coverings (8.4%): laminate flooring, commercial and residential carpeting, area rugs and floor mats.

Electronics (6.6%): air conditioners, home electronics, cellular accessories and as seen on television.

Toys (6.5%): dolls, action figures, puzzles, educational toys, board games and other related items.

Health and beauty aids (5.7%): personal care, hair care, oral care, health and wellness, over-the-counter medicine, first aid, sun care, and personal grooming.

Other (27.9%): hardware, candy, clothing, sporting goods, pet products, luggage, automotive, seasonal, furniture, summer furniture and lawn & garden.



Reasons To Buy:

- ▲ **Impressive Stock Performance:** Shares of Ollie's Bargain have surged 55% compared with the industry's growth of 11% in the past six months. The stock got a boost following the company's better-than-expected performance during the first quarter of fiscal 2020, despite the impacts of the COVID-19. Notably, both the top and the bottom line continued to improve year over year. The company saw comparable sales turning positive by the end of the quarter, which to an extent offset the steep decline witnessed somewhere in the middle of the quarter due to the coronavirus outbreak. Management informed that stores have remained open and continued to operate as an essential business during the quarter. As a result, comparable store sales subsequently improved driven by efforts to effectively respond to changing consumer needs. Moreover, comps gained from the federal relief funds for the pandemic, which boosted consumer spending. Further, the company has noted that initial sales for the second quarter remained strong. It expects to steer through the current environment with caution, cost containment and improved cash position.
- ▲ **Strategic Initiatives on Track:** Ollie's Bargain's business model of "buying cheap and selling cheap", cost-containment efforts, focus on store productivity and expansion of customer reward program, Ollie's Army, reinforce its position. For fiscal 2019, roughly 70% of sales were from Ollie's Army members, and the base of loyal members grew by 13.3% during the fiscal year. Also, the company has made concerted efforts to be debt free and now consist solely of capital lease obligations. Cumulatively, these have positioned the stock to augment both top and bottom-line performance in the long run. Net sales have surged at a CAGR of 16.5% from \$762 million in fiscal 2015 to \$1,408 million in fiscal 2019, while net income has soared from \$35.8 million to \$141.1 million during the aforementioned period.
- ▲ **"Good Stuff Cheap":** The company offers brand name merchandise across a broad range of categories at significantly low prices. The company's results are highly dependent on the availability of brand name and closeout merchandise at compelling prices, as the same represented roughly 70% of goods purchased and non-closeout goods and private label products collectively represented approximately 30% of 2019 merchandise purchases. Moreover, the company sells merchandise at prices up to 70% lower than the department and fancy stores, and up to 20-50% lower than mass-market retailers.
- ▲ **Decent Top-Line Performance:** Ollie's Bargain net sales improved 7.5% to \$349.4 million and surpassed the Zacks Consensus Estimate of \$312.5 million. The increase was the result of a non-comparable store sales increase of \$34.5 million, partially offset by a comparable store sales decrease of \$10 million. The increase in non-comparable store sales was driven by sales from new stores that have not been open for a full 15 months. This followed an increase of 17.8%, 15.9%, 15.3% and 7.2% in the first, second, third and fourth quarter of fiscal 2019, respectively. Net sales have surged at a CAGR of 16.5% from \$762 million in fiscal 2015 to \$1,408 million in fiscal 2019.
- ▲ **Store Growth Opportunity:** Management had earlier indicated that as per internal estimates and third party research conducted by Hoffman Strategy Group there is potential for more than 1,050 national locations. The company's new store real estate model is flexible and focuses on second generation sites ranging in size from 25,000-35,000 square feet. The company has increased its store base at a CAGR of 14.1% from 203 stores in fiscal 2015 to 345 stores in fiscal 2019. We note that the company has opened 28, 31, 34, 37 and 42 stores in fiscals 2015, 2016, 2017, 2018 and 2019, respectively. The company plans to open 47-49 new stores with one planned closure and one unexpected temporary closure during fiscal 2020. During the first quarter, the company opened 17 stores and closed two ending the period with 360 stores in 25 states with 11.1% year-over-year increase in store count. Management targets new store sales of approximately \$4 million.
- ▲ **Financial Flexibility:** Ollie's Bargain ended first-quarter fiscal 2020 with cash and cash equivalents of \$119.4 million, reflecting significant growth from \$90 million at the end of the prior quarter. The company's liquidity position remained strong, with no borrowings under its \$100-million revolving credit facility and \$94.9-million availability under the facility as of the end of the first quarter of fiscal 2020. As of May 2, 2020, its total borrowings (comprised solely of finance lease obligations) were \$0.9 million and shareholders' equity was \$1,094.2 million.

Ollie's Bargain's business model of "buying cheap and selling cheap", cost-containment efforts and customer reward program fortify its position.

Risks

- **Near Term Headwinds:** Ollie's Bargain expects continued volatility given the uncertainty regarding consumer demand, changes in shelter-in-place orders, the impacts of economic stimulus, the reopening of other retail stores, and potential for large scale liquidation sales to have a bearing on its sales results, going forward. Further, the company expects the product mix shift in sales and potential promotional pressure from aggressive and widespread liquidation sales to hurt the gross margin rate. The company had earlier guided that gross margin for the fiscal year is likely to be impacted by 20-30 basis points of headwind from new Texas DC. During the first quarter of fiscal 2020, gross margin shriveled 70 basis points to 40.2%, owing to increased sales of consumables, which are low-margin products, as well as a deleverage in supply-chain cost, as a percentage of net sales, due to lower-than-planned sales. Adjusted operating margin shrunk 10 basis points to 12.3% on account of gross margin contraction.
 - **Sluggish Comps Results:** The company's soft comparable-store sales run continued in the first quarter of fiscal 2020. Comparable-store sales decreased 3.3% during the quarter under review, following a decline of 4.9% and 1.4% in the preceding quarters. We note that the reported figure compared unfavorably with the prior-year quarter's increase of 0.8%. The company's comps remained volatile in the quarter as both traffic and sales declined drastically, thanks to the initial reaction to the pandemic.
 - **SG&A Expenses Continue to Increase:** Selling, general and administrative expenses have been increasing for quite some time now. In the first quarter of fiscal 2020, the same rose to \$89.7 million from \$83.3 million on account of increased expenses associated with operating through coronavirus pandemic, primarily premium pay totaling \$1.5 million to qualifying instore associates, store leadership and distribution center associates. However, as a percentage of net sales, SG&A expenses remained flat at 25.7%. Certainly, any deleverage in SG&A expenses is likely to show on the company's operating income, unless fully offset by substantial increase in net sales.
 - **Stiff Competition:** Ollie's Bargain faces stiff competition from discount, closeout, mass merchant, department, grocery, drug, convenience, hardware, variety, online and other specialty stores. This may result in loss of market share as well as fall in sales and operating margins. Competitors with larger number of stores, greater market presence and better financial resources will continue to weigh on the company's results.
 - **Dip in Consumer Sentiment May Impact Sales:** Any dip in consumer confidence – a key determinant of the economy's health – may have serious bearing on spending. The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their sentiment. This may adversely impact its growth and profitability.
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Last Earnings Report

Ollie's Bargain Beats on Q1 Earnings & Sales

Ollie's Bargain Outlet Holdings, Inc. reported better-than-expected top- and bottom-line performance in first-quarter fiscal 2020, despite the impacts of the COVID-19 outbreak.

Management highlighted that the fiscal first quarter was quite challenging due to the coronavirus outbreak, which dented earnings and sales to some extent. Notably, the company saw comparable sales turning positive by the end of the quarter, which to an extent offset the steep decline witnessed somewhere in the middle of the quarter due to the coronavirus outbreak. Further, Ollie's Bargain witnessed higher costs of operating stores and distribution centers, with safety protocols as well as premium pay to associates during the pandemic. Nonetheless, its cost-containment efforts did provide some cushion.

Further, the company has noted that initial sales for the fiscal second quarter remained strong. It expects to steer through the current environment with caution, cost containment and improved cash position. Given the expectations of unprecedented impacts from the pandemic, including the duration and effects on consumer demand, the company refrained from providing earnings guidance for fiscal 2020 at this time.

Quarterly Results

Ollie's Bargain delivered adjusted earnings of 49 cents a share that beat the Zacks Consensus Estimate of 35 cents and improved 6.5% from the year-ago quarter. The improvement can be attributed to higher net sales and better expense management.

Net sales improved 7.5% to \$349.4 million and surpassed the consensus mark of \$312.5 million. The increase in the top line can be attributed to robust new store performance. However, comparable-store sales decreased 3.3% during the quarter under review, following a decline of 4.9% in the preceding quarter. We note that the reported figure compared unfavorably with the prior-year quarter's increase of 0.8%.

The company's comps remained volatile in the quarter as both traffic and sales declined drastically, thanks to the initial reaction to the pandemic. Nonetheless, the stores remained open and comps picked up gradually, driven by efforts to effectively respond to changing consumer needs. The rebound in console also aided comps performance. Moreover, comps gained from the federal relief funds for the pandemic, which boosted consumer spending.

Meanwhile, gross profit rose 5.7% to \$140.4 million. However, gross margin shrank 70 basis points to 40.2%, owing to increased sales of consumables, which are low-margin products, as well as a deleverage in supply-chain cost, as a percentage of net sales, due to lower-than-planned sales.

SG&A expenses jumped to \$89.7 million from \$83.3 million on account of increased selling expenses related to new stores. However, as a percentage of net sales, SG&A expenses remained flat at 25.7%, driven by expense management initiatives, despite increased expenses to remain operational during the pandemic, which included premium pay to staff. Pre-opening expenses declined 28.8% to \$3.7 million, owing to the comparative timing in the number of store openings in the quarter. As a percentage of sales, pre-opening expenses were down 50 bps to 1.1%.

Adjusted operating income grew 6.9% to \$43 million. However, adjusted operating margin shrank 10 basis points to 12.3% on account of gross margin contraction, partly offset by a decline in pre-opening expense rate. Adjusted EBITDA rose 6.6% to \$49.7 million, while adjusted EBITDA margin decreased 10 basis points to 14.2%.

Store Update

During first-quarter fiscal 2020, Ollie's Bargain opened 17 stores and closed two, taking the total count to 360 stores in 25 states. Despite the widespread headwinds related to the COVID-19 outbreak, the company reiterated its plans to open 47-49 stores and close one in fiscal 2020. In addition, it expects another unexpected temporary store closure.

Earlier, management predicted 23 store openings in the first half of fiscal 2020 and the rest in the second half, with the handful in the early fourth quarter. However, due to the disruptions caused by the COVID-19 outbreak, the company now expects some openings to be delayed or pushed back to the next year.

Financial Aspects

Ollie's Bargain ended the quarter with cash and cash equivalents of \$119.4 million, reflecting significant growth from \$90 million at the end of the prior quarter. The company's liquidity position remained strong, with no borrowings under its \$100-million revolving credit facility and \$94.9-million availability under the facility as of the end of the first quarter of fiscal 2020. As of May 2, 2020, its total borrowings (comprised solely of finance lease obligations) were \$0.9 million and shareholders' equity was \$1,094.2 million.

Management incurred capital expenditure of \$12.4 million in the fiscal first quarter. For fiscal 2020, the company expects capital expenditure of \$30-\$35 million directed toward store openings, IT projects and store-level initiatives.

Quarter Ending **04/2020**

Report Date	May 28, 2020
Sales Surprise	11.79%
EPS Surprise	40.00%
Quarterly EPS	0.49
Annual EPS (TTM)	1.99

Valuation

Ollie's Bargain shares are up 41% in the year-to-date period but down nearly 4.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 9.3% but the Zacks Consumer Staples sector is down 11.1% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 11.5% and 6.2%, respectively.

The S&P 500 index is down 4.4% in the year-to-date period but up 9.1% in the past year.

The stock is currently trading at 43.21X forward 12-month earnings, which compares to 23.9X for the Zacks sub-industry, 20.01X for the Zacks sector and 22.29X for the S&P 500 index.

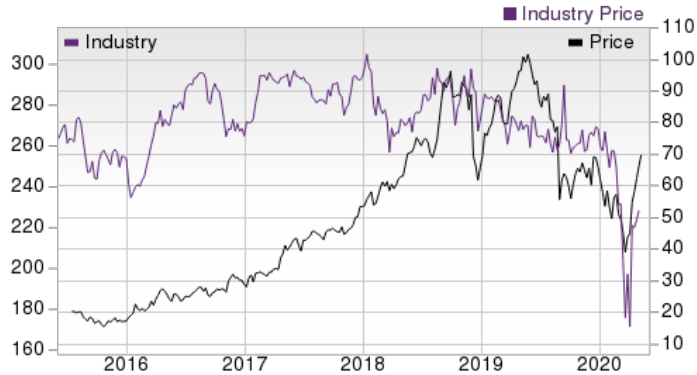
Over the past five years, the stock has traded as high as 49.07X and as low as 14.43X, with a 5-year median of 31.97X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$106 price target reflects 49.69X forward 12-month earnings.

The table below shows summary valuation data for OLLI

Valuation Multiples - OLLI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	43.21	23.9	20.01	22.29
	5-Year High	49.07	23.9	22.37	22.29
	5-Year Low	14.43	13.74	16.65	15.23
	5-Year Median	31.97	17.95	19.7	17.49
P/S F12M	Current	3.78	2.04	9.63	3.47
	5-Year High	4.43	2.12	11.16	3.47
	5-Year Low	1.09	1.57	8.1	2.53
	5-Year Median	2.38	1.92	9.89	3.02
EV/EBITDA TTM	Current	32.69	11.7	33.98	11.4
	5-Year High	52.68	19.73	45.11	12.86
	5-Year Low	13.66	3.65	27.19	8.26
	5-Year Median	23.92	12.61	38.37	10.81

As of 06/03/2020

Industry Analysis Zacks Industry Rank: Top 17% (43 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Big Lots, Inc. (BIG)	Outperform	1
Burlington Stores, Inc. (BURL)	Neutral	3
Costco Wholesale Corporation (COST)	Neutral	3
Dollar General Corporation (DG)	Neutral	1
Dollar Tree, Inc. (DLTR)	Neutral	2
Target Corporation (TGT)	Neutral	4
Tuesday Morning Corp. (TUES)	Neutral	3
Ross Stores, Inc. (ROST)	Underperform	4

Industry Comparison Industry: Consumer Products - Staples				Industry Peers		
	OLLI	X Industry	S&P 500	COST	DG	TGT
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	1	4
VGM Score	B	-	-	A	A	B
Market Cap	5.88 B	3.23 B	22.50 B	135.41 B	47.76 B	60.87 B
# of Analysts	7	5	14	9	23	12
Dividend Yield	0.00%	0.00%	1.88%	0.91%	0.76%	2.17%
Value Score	D	-	-	B	B	C
Cash/Price	0.02	0.05	0.06	0.06	0.06	0.07
EV/EBITDA	31.93	11.88	12.98	20.95	20.31	9.99
PEG Ratio	1.72	2.79	3.05	4.29	1.89	4.06
Price/Book (P/B)	5.37	4.18	3.11	7.97	6.63	5.45
Price/Cash Flow (P/CF)	39.90	14.28	12.18	26.33	21.33	10.46
P/E (F1)	41.13	20.51	22.19	36.01	23.41	24.56
Price/Sales (P/S)	4.10	1.70	2.40	0.84	1.61	0.76
Earnings Yield	2.43%	4.47%	4.31%	2.78%	4.27%	4.07%
Debt/Equity	0.27	0.82	0.76	0.44	1.65	1.46
Cash Flow (\$/share)	2.31	2.31	7.01	11.64	8.90	11.64
Growth Score	B	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	31.17%	3.15%	10.87%	12.69%	14.79%	5.85%
Proj. EPS Growth (F1/F0)	14.36%	4.99%	-10.74%	3.98%	20.44%	-22.44%
Curr. Cash Flow Growth	8.58%	5.95%	5.48%	14.92%	9.68%	10.26%
Hist. Cash Flow Growth (3-5 yrs)	30.96%	4.69%	8.55%	10.65%	9.69%	3.95%
Current Ratio	2.48	1.44	1.29	1.04	1.44	1.01
Debt/Capital	21.48%	62.82%	44.75%	30.74%	62.32%	59.37%
Net Margin	9.48%	0.98%	10.59%	2.31%	6.69%	3.46%
Return on Equity	12.56%	14.00%	16.29%	22.92%	29.33%	24.17%
Sales/Assets	0.91	1.24	0.55	3.31	1.29	1.85
Proj. Sales Growth (F1/F0)	12.58%	3.77%	-2.65%	6.66%	11.19%	5.95%
Momentum Score	B	-	-	B	A	B
Daily Price Chg	0.57%	0.69%	2.42%	-0.15%	-1.06%	2.42%
1 Week Price Chg	6.82%	2.90%	4.60%	2.00%	7.00%	4.12%
4 Week Price Chg	38.67%	17.61%	13.40%	-0.73%	9.11%	7.18%
12 Week Price Chg	98.83%	10.97%	12.78%	3.10%	20.38%	15.30%
52 Week Price Chg	-4.49%	1.52%	0.89%	23.67%	45.51%	42.39%
20 Day Average Volume	1,693,117	701,818	2,528,787	2,902,424	2,600,922	6,228,157
(F1) EPS Est 1 week change	17.09%	0.00%	0.00%	-0.14%	7.59%	0.00%
(F1) EPS Est 4 week change	18.42%	0.00%	-0.14%	-2.33%	8.67%	-9.32%
(F1) EPS Est 12 week change	-3.68%	-3.68%	-16.00%	-2.34%	8.95%	-27.54%
(Q1) EPS Est Mthly Chg	56.11%	0.00%	-0.02%	-1.17%	8.92%	-9.79%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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