Ollies Bargain Outlet (OLLI)

$51.59 (As of 04/07/20)

Price Target (6-12 Months): **$55.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 11/01/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: C | Growth: B | Momentum: F	

Summary

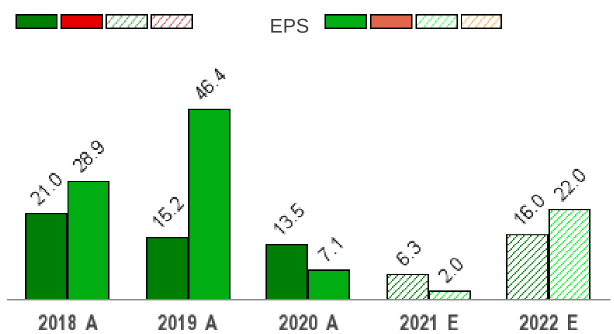
Shares of Ollie's Bargain have slid and underperformed the industry in the past three months. The stock came under pressure following lower-than-expected fourth-quarter fiscal 2019 results. Moreover, the company continued with soft comps run. Margins also contracted on a year-over-year basis. Management highlighted that the quarter was quite challenging in terms of sales, as investment in toy hurt the performance of other merchandise categories. Further, six fewer shopping days between Thanksgiving and Christmas hit sales. Nonetheless, the company is optimistic about its business model and remains focused on improving store productivity. Notably, both the top and bottom lines grew year over year during the quarter under review. However, given the coronavirus outbreak, the company has decided not to provide fiscal 2020 guidance.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$103.03 - $28.83**
20 Day Average Volume (sh)	**2,225,011**
Market Cap	**$3.3 B**
YTD Price Change	**-21.0%**
Beta	**0.87**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Consumer Products - Staples**
Zacks Industry Rank	**Top 27% (69 out of 253)**
Last EPS Surprise	**-2.6%**
Last Sales Surprise	**-3.3%**
EPS F1 Est- 4 week change	**-14.1%**
Expected Report Date	**06/04/2020**
Earnings ESP	**0.0%**
P/E TTM	**26.3**
P/E F1	**25.8**
PEG F1	**1.1**
P/S TTM	**2.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	396 E	401 E	428 E	566 E	1,736 E
2021	325 E	344 E	361 E	480 E	1,497 E
2020	325 A	334 A	327 A	422 A	1,408 A

EPS Estimates

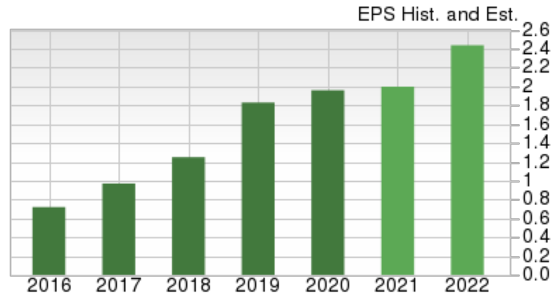
	Q1	Q2	Q3	Q4	Annual*
2022	$0.59 E	$0.46 E	$0.57 E	$1.08 E	$2.44 E
2021	$0.37 E	$0.32 E	$0.40 E	$0.82 E	$2.00 E
2020	$0.46 A	$0.35 A	$0.41 A	$0.74 A	$1.96 A

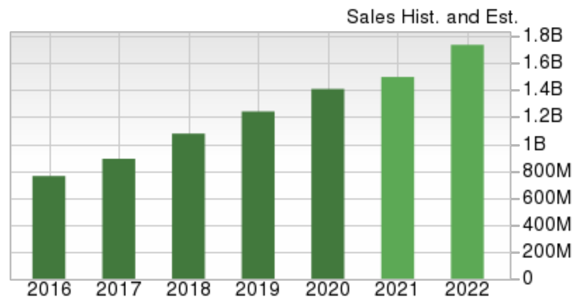
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/07/2020. The reports text is as of 04/08/2020.

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 February 1, 2020, the company operated 345 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:

▲ **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. 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.

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

▲ **"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:** Following an increase of 17.8%, 15.9% and 15.3% in the first, second and third quarters of fiscal 2019, respectively, Ollie's Bargain net sales grew 7.2% to $422.4 in the fourth quarter. The increase in the top line can be attributed to robust new store performance from the 42 stores opened in fiscal 2019, which includes 14 former Toys R Us locations. 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 indicates 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 stores and close one in fiscal 2020.

Reasons To Sell:

- **Dismal Stock Performance:** Shares of Ollie's Bargain have slid 12.3% compared with the industry's decline of 8.2% in the past three months. The stock came under pressure following the company's lower-than-expected fourth-quarter fiscal 2019 results. Moreover, the company continued to witness soft comparable-store sales performance. Margins also contracted on a year-over-year basis. Adjusted operating margin shrunk 50 basis points to 15.2% on account of gross margin contraction and deleveraging of depreciation and amortization expenses. Management highlighted that the fourth quarter was quite challenging in terms of sales, as the company's significant investment in toy category impacted the performance of other key merchandise categories. Further, six fewer shopping days between Thanksgiving and Christmas impacted sales.

Comparable-store sales decreased 4.9% during the quarter under review, following a decline of 1.4% in the preceding period partly due to significant investment in its toy category.

- **Sluggish Comps Results:** The company's soft comparable-store sales run continued during fourth-quarter fiscal 2019. Comparable-store sales decreased 4.9% during the quarter under review, following a decline of 1.4% in the preceding period. We note that the reported figure compared unfavorably with the prior-year quarter's increase of 5.4%. The dismal comparable-store sales performance was partly due to significant investment in its toy category, which hurt the performance of other merchandise categories. Sales were also impacted by a less favorable holiday shopping calendar, with six fewer shopping days between Thanksgiving and Christmas. Comparable-store sales decreased 2.1% in during fiscal 2019 compared with a 4.2% increase in the prior year.

- **SG&A Expenses Continue to Increase:** Selling, general and administrative expenses have been increasing for quite some time now. In the fourth quarter of fiscal 2019, the same rose to $95.4 million from $89 million on account of increased selling expenses related to new stores. However, as a percentage of net sales, SG&A expenses remained flat at 22.6%. We note that selling, general and administrative expenses have increased 15.4% in the preceding quarter. The increased selling expenses comprise of store payroll and benefits, store occupancy costs and other store-related expenses. Certainly, this will to an extent hurt 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.

Last Earnings Report

Ollie's Bargain's Q4 Earnings Miss Estimates

Quarter Ending	01/2020
Report Date	Mar 19, 2020
Sales Surprise	-3.26%
EPS Surprise	-2.63%
Quarterly EPS	0.74
Annual EPS (TTM)	1.96

Ollie's Bargain Outlet Holdings, Inc. reported lower-than-expected fourth-quarter fiscal 2019 results. Moreover, the company continued to witness soft comparable-store sales performance. Margins also contracted on a year-over-year basis.

Management highlighted that the fourth quarter was quite challenging in terms of sales, as the company's significant investment in toy category impacted the performance of other key merchandise categories. Further, six fewer shopping days between Thanksgiving and Christmas impacted sales. Nonetheless, the company's cost containment efforts did provide some cushion.

The company is optimistic about its business model of "buying cheap and selling cheap," and remains focused on improving store productivity. Notably, both the top and bottom lines improved year over year during the quarter under review. However, given the coronavirus outbreak, the company has decided not to provide fiscal 2020 guidance.

Quarterly Results

Ollie's Bargain delivered adjusted earnings of 74 cents a share that missed the Zacks Consensus Estimate by a couple of cents but improved 4.2% from the year-ago quarter's figure of 71 cents. This year-over-year increase can be attributed to higher net sales and better expense management.

Notably, net sales improved 7.2% to $422.4 million but lagged the consensus mark of $436.7 million. The increase in the top line can be attributed to robust new store performance from the 42 stores opened in fiscal 2019, which includes 14 former Toys R Us locations.

However, comparable-store sales decreased 4.9% during the quarter under review, following a decline of 1.4% in the preceding period. We note that the reported figure compared unfavorably with the prior-year quarter's increase of 5.4%.

Meanwhile, gross profit rose 5.6% to $165.5 million during the quarter. However, gross margin shriveled 60 basis points to 39.2% owing to increased supply chain costs as a percentage of net sales, partly offset by higher merchandise margin.

Adjusted operating income grew 3.6% to $64.1 million, however, adjusted operating margin shrunk 50 basis points to 15.2% on account of gross margin contraction and deleveraging of depreciation and amortization expenses. This was partly offset by reduction of pre-opening expenses as a percentage of net sales.

Adjusted SG&A expenses jumped to $95.4 million from $89 million on account of increased selling expenses related to new stores. However, as a percentage of net sales, SG&A expenses remained flat at 22.6%.

Adjusted EBITDA increased 2.4% to $69.3 million during the reported quarter, however, adjusted EBITDA margin decreased 80 basis points to 16.4%.

Store Update

During fiscal 2019, Ollie's Bargain opened 42 new stores taking the total count to 345 stores in 25 states. The company plans to open 47-49 stores and close one in fiscal 2020. So far this year, the company has opened nine stores. Management believes that there is a significant room to increase store count to approximately 1,050 stores on a national scale, up from prior estimate of 950.

Financial Aspects

Ollie's Bargain ended the quarter with cash and cash equivalents of $90 million, total borrowings (consisting solely of finance lease obligations) of $0.8 million and shareholders' equity of $1,058.9 million.

Management incurred capital expenditure of $77 million in fiscal 2019 thanks to investments in the third distribution center and new stores. During fiscal 2019, the company repurchased approximately 689,000 shares worth $40 million. At the end of the fiscal year, the company had $60 million remaining under its current share repurchase program.

Recent News

Ollie's Bargain Appoints John Swygert as CEO – December 10, 2019

Ollie's Bargain announced that its board of directors has named John Swygert President and Chief Executive Officer and member of its board of directors, effective immediately.

Valuation

Ollie's Bargain shares are down 21% and nearly 42.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 8.6% and 18.2%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 22% and 12.5%, respectively.

The S&P 500 index is down 17.2% in the year-to-date period and 7.5% in the past year.

The stock is currently trading at 21.56X forward 12-month earnings, which compares to 19.94X for the Zacks sub-industry, 17.57X for the Zacks sector and 16.91X 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 31.94X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $55 price target reflects 22.85X 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	21.56	19.94	17.57	16.91
	5-Year High	49.07	21.93	22.37	19.34
	5-Year Low	14.43	13.74	16.49	15.19
	5-Year Median	31.94	17.97	19.66	17.44
P/S F12M	Current	1.98	1.67	8.53	2.92
	5-Year High	4.43	2.12	11.16	3.44
	5-Year Low	1.09	1.57	8.1	2.54
	5-Year Median	2.37	1.92	9.89	3
EV/EBITDA TTM	Current	19.97	10.86	32.62	9.75
	5-Year High	52.68	19.73	45.9	12.87
	5-Year Low	13.66	3.64	27.88	8.27
	5-Year Median	23.76	12.61	39.07	10.78

As of 04/07/2020

Industry Analysis **Zacks Industry Rank:** Top 27% (69 out of 253)

Top Peers

Burlington Stores, Inc. **(BURL)**	Neutral
Costco Wholesale Corporation **(COST)**	Neutral
Dollar General Corporation **(DG)**	Neutral
Dollar Tree, Inc. **(DLTR)**	Neutral
Ross Stores, Inc. **(ROST)**	Neutral
Target Corporation **(TGT)**	Neutral
Tuesday Morning Corp. **(TUES)**	Neutral
Big Lots, Inc. **(BIG)**	Underperform

Industry Comparison Industry: Consumer Products - Staples

Industry Peers

	OLLI Neutral	X Industry	S&P 500	COST Neutral	DG Neutral	TGT Neutral
VGM Score	C	-	-	B	A	A
Market Cap	3.29 B	2.85 B	18.38 B	134.08 B	42.55 B	49.22 B
# of Analysts	7	5	13	10	16	12
Dividend Yield	0.00%	0.00%	2.31%	0.86%	0.85%	2.69%
Value Score	C	-	-	C	D	B
Cash/Price	0.03	0.09	0.06	0.07	0.01	0.06
EV/EBITDA	18.45	9.03	11.23	20.74	18.90	8.29
PEG Ratio	1.08	3.16	1.91	4.10	1.85	1.90
Price/Book (P/B)	3.10	2.45	2.45	7.89	6.36	4.21
Price/Cash Flow (P/CF)	22.35	11.90	9.63	26.08	19.02	8.44
P/E (F1)	25.91	18.07	15.92	34.36	22.57	14.91
Price/Sales (P/S)	2.34	1.07	1.94	0.85	1.53	0.63
Earnings Yield	3.88%	5.12%	6.15%	2.91%	4.43%	6.71%
Debt/Equity	0.28	0.73	0.70	0.44	1.60	1.15
Cash Flow ($/share)	2.31	2.31	7.01	11.64	8.90	11.64
Growth Score	B	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	32.35%	3.38%	10.92%	12.09%	13.67%	7.09%
Proj. EPS Growth (F1/F0)	1.97%	1.89%	-0.12%	7.90%	11.36%	3.10%
Curr. Cash Flow Growth	8.58%	5.95%	5.93%	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	2.44	1.38	1.24	1.04	1.14	0.89
Debt/Capital	22.09%	51.84%	42.36%	30.74%	61.55%	53.50%
Net Margin	10.02%	1.73%	11.64%	2.39%	6.17%	4.20%
Return on Equity	12.69%	13.40%	16.74%	23.41%	26.04%	28.46%
Sales/Assets	0.92	1.06	0.54	3.34	1.25	1.85
Proj. Sales Growth (F1/F0)	6.33%	4.98%	0.85%	7.54%	8.06%	4.54%
Momentum Score	F	-	-	B	A	D
Daily Price Chg	6.61%	0.76%	0.69%	-0.49%	-0.28%	0.77%
1 Week Price Chg	2.18%	-5.91%	-4.40%	1.52%	11.00%	-2.29%
4 Week Price Chg	3.97%	-7.32%	-10.67%	-1.86%	1.76%	-9.30%
12 Week Price Chg	-4.89%	-13.65%	-23.70%	1.29%	7.09%	-21.56%
52 Week Price Chg	-42.38%	-13.71%	-15.92%	23.98%	39.33%	21.82%
20 Day Average Volume	2,225,011	709,099	4,068,329	5,287,006	4,067,283	7,572,277
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.50%	0.77%	0.00%
(F1) EPS Est 4 week change	-14.12%	-0.74%	-5.24%	1.30%	0.81%	-3.67%
(F1) EPS Est 12 week change	-14.86%	-5.33%	-6.86%	2.91%	0.97%	-4.03%
(Q1) EPS Est Mthly Chg	-26.26%	-1.42%	-8.25%	3.96%	-0.16%	-7.58%

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	C
Growth Score	B
Momentum Score	F
VGM Score	C

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.

Disclosures

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.