

Ollie's Bargain Outlet (OLLI)

\$77.36 (As of 05/18/20)

Price Target (6-12 Months): **\$82.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/03/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: A

Momentum: D

Summary

Shares of Ollie's Bargain have risen and outpaced the industry in the past three months. Management is optimistic about its 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 overall performance. Notably, both the top and bottom lines continued to increase in fourth-quarter fiscal 2019. However, both the metrics missed the Zacks Consensus Estimate. 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.

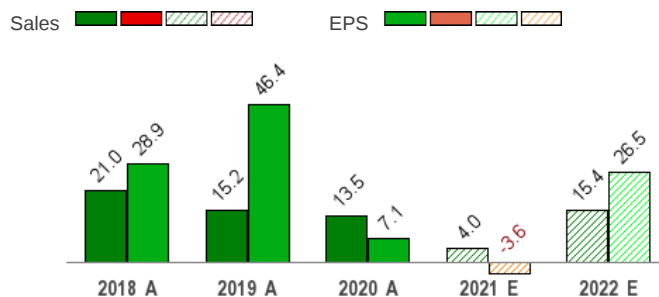
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$103.03 - \$28.83
20 Day Average Volume (sh)	1,626,238
Market Cap	\$4.9 B
YTD Price Change	18.5%
Beta	1.25
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Consumer Products - Staples
Zacks Industry Rank	Top 10% (26 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.6%
Last Sales Surprise	-3.3%
EPS F1 Est- 4 week change	2.4%
Expected Report Date	05/28/2020
Earnings ESP	25.2%
P/E TTM	39.5
P/E F1	40.9
PEG F1	1.7
P/S TTM	3.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	397 E	403 E	429 E	567 E	1,689 E
2021	308 E	323 E	357 E	481 E	1,464 E
2020	325 A	334 A	327 A	422 A	1,408 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.60 E	\$0.46 E	\$0.57 E	\$1.08 E	\$2.39 E
2021	\$0.34 E	\$0.30 E	\$0.40 E	\$0.82 E	\$1.89 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 05/18/2020. The reports text is as of 05/19/2020.

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.

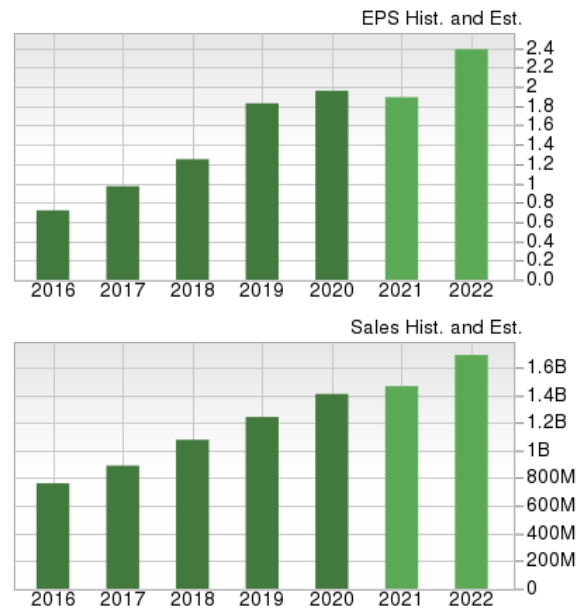
Floor coverings (8.4%): laminate flooring, commercial and residential carpeting, area rugs and floor mats.

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. Shares of Ollie's Bargain have surged 36% against the industry's decline of 0.1% in the past three months.
- ▲ **"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.
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Ollie's Bargain's business model of "buying cheap and selling cheap", cost-containment efforts and customer reward program fortify its position.

Reasons To Sell:

- ▼ **Lower-than-Expected Q4 Results:** Ollie's Bargain 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. 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.
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Last Earnings Report

Ollie's Bargain's Q4 Earnings Miss Estimates

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.

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

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.

Valuation

Ollie's Bargain shares are up 18.4% in the year-to-date period but down nearly 22.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 1.8% but the Zacks Consumer Staples sector is down 17.6% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 16.5% and 13.5%, respectively.

The S&P 500 index is down 8.2% in the year-to-date period but up 3.8% in the past year.

The stock is currently trading at 37.85X forward 12-month earnings, which compares to 22.31X for the Zacks sub-industry, 18.52X for the Zacks sector and 20.83X 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 31.82X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$82 price target reflects 40.12X 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	37.85	22.31	18.52	20.83
	5-Year High	49.07	22.31	22.37	20.87
	5-Year Low	14.43	13.74	16.65	15.23
	5-Year Median	31.82	17.97	19.66	17.49
P/S F12M	Current	3.22	1.89	8.65	3.24
	5-Year High	4.43	2.12	11.16	3.44
	5-Year Low	1.09	1.57	8.1	2.53
	5-Year Median	2.37	1.91	9.89	3.01
EV/EBITDA TTM	Current	29.24	11.03	33.13	10.57
	5-Year High	52.68	19.73	45.91	12.86
	5-Year Low	13.66	3.65	27.92	8.26
	5-Year Median	23.77	12.62	39.04	10.78

As of 05/18/2020

Industry Analysis Zacks Industry Rank: Top 10% (26 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Costco Wholesale Corporation (COST)	Neutral	3
Dollar General Corporation (DG)	Neutral	3
Dollar Tree, Inc. (DLTR)	Neutral	3
Target Corporation (TGT)	Neutral	4
Tuesday Morning Corp. (TUES)	Neutral	3
Big Lots, Inc. (BIG)	Underperform	3
Burlington Stores, Inc. (BURL)	Underperform	5
Ross Stores, Inc. (ROST)	Underperform	5

Industry Comparison Industry: Consumer Products - Staples				Industry Peers		
	OLLI	X Industry	S&P 500	COST	DG	TGT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	C	-	-	A	A	B
Market Cap	4.94 B	3.24 B	20.09 B	133.69 B	45.79 B	62.58 B
# of Analysts	7	5	14	9	23	12
Dividend Yield	0.00%	0.00%	2.1%	0.92%	0.79%	2.11%
Value Score	C	-	-	C	C	C
Cash/Price	0.02	0.07	0.07	0.07	0.01	0.04
EV/EBITDA	27.13	11.31	12.13	20.68	20.05	10.12
PEG Ratio	1.77	2.79	2.72	4.22	1.99	3.92
Price/Book (P/B)	4.65	4.40	2.75	7.86	6.84	5.36
Price/Cash Flow (P/CF)	33.51	13.77	10.86	26.00	20.46	10.76
P/E (F1)	42.30	19.93	20.10	35.42	24.38	25.00
Price/Sales (P/S)	3.50	1.40	2.05	0.84	1.65	0.80
Earnings Yield	2.44%	4.55%	4.77%	2.82%	4.10%	4.00%
Debt/Equity	0.28	0.82	0.76	0.44	1.60	1.15
Cash Flow (\$/share)	2.31	2.31	7.01	11.64	8.90	11.64
Growth Score	A	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	32.35%	3.15%	10.87%	12.09%	13.67%	7.09%
Proj. EPS Growth (F1/F0)	-3.42%	-1.56%	-10.31%	4.36%	10.97%	-21.64%
Curr. Cash Flow Growth	8.58%	5.95%	5.51%	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	1.44	1.28	1.04	1.14	0.89
Debt/Capital	22.09%	62.82%	44.46%	30.74%	61.55%	53.50%
Net Margin	10.02%	0.98%	10.59%	2.39%	6.17%	4.20%
Return on Equity	12.69%	14.00%	16.29%	23.41%	26.04%	28.46%
Sales/Assets	0.92	1.24	0.55	3.34	1.25	1.85
Proj. Sales Growth (F1/F0)	3.99%	2.79%	-2.49%	6.84%	8.97%	4.01%
Momentum Score	D	-	-	A	A	F
Daily Price Chg	5.32%	2.62%	5.21%	1.19%	0.02%	3.52%
1 Week Price Chg	5.50%	0.00%	-4.56%	-2.20%	3.21%	4.41%
4 Week Price Chg	31.10%	8.03%	4.12%	-2.99%	1.70%	14.88%
12 Week Price Chg	39.19%	-5.85%	-16.39%	-3.46%	10.43%	10.04%
52 Week Price Chg	-22.49%	-1.07%	-5.84%	21.64%	51.94%	73.70%
20 Day Average Volume	1,626,238	618,531	2,651,378	2,890,665	1,904,242	5,558,522
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.13%	-4.28%
(F1) EPS Est 4 week change	2.40%	0.00%	-4.48%	-2.66%	-0.01%	-23.61%
(F1) EPS Est 12 week change	-18.72%	-7.16%	-16.39%	-1.24%	0.55%	-26.77%
(Q1) EPS Est Mthly Chg	8.76%	-0.32%	-9.90%	-6.64%	0.15%	-18.32%

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	C
Growth Score	A
Momentum Score	D
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.

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