

Ollie's Bargain Outlet (OLLI)

\$57.10 (As of 02/21/20)

Price Target (6-12 Months): **\$60.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/01/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: F

Summary

Shares of Ollie's Bargain have slid and underperformed the industry in the past three months. Soft comparable-store sales performance during third-quarter fiscal 2019 may be cited as one of the reasons behind stock's dismal run on the bourses. Cannibalization of comparable stores and short-term supply chain pressures hurt the comparable-store sales performance. The company continues to expect comparable-store sales to decrease in the range of 0.5-1.5% during fiscal 2019, which is down from 4.2% increase reported in the prior year. Nonetheless, the company 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. Moreover, management believes that there is a significant room to increase store count.

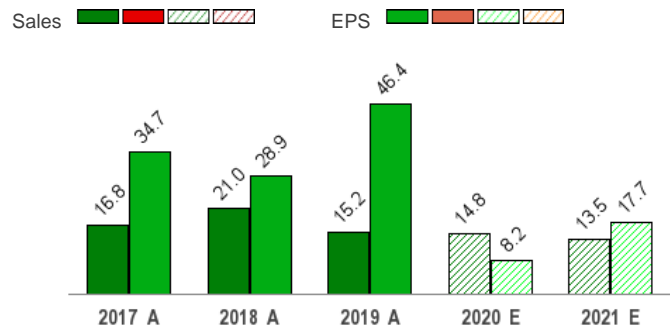
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$103.03 - \$46.97
20 Day Average Volume (sh)	1,522,008
Market Cap	\$3.6 B
YTD Price Change	-12.6%
Beta	0.89
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Consumer Products - Staples
Zacks Industry Rank	Bottom 34% (168 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.1%
Last Sales Surprise	1.3%
EPS F1 Est- 4 week change	-0.7%
Expected Report Date	03/24/2020
Earnings ESP	-3.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	356 E	379 E	368 E	489 E	1,618 E
2020	325 A	334 A	327 A	437 E	1,425 E
2019	276 A	288 A	284 A	394 A	1,241 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.50 E	\$0.46 E	\$0.44 E	\$0.90 E	\$2.33 E
2020	\$0.46 A	\$0.35 A	\$0.41 A	\$0.76 E	\$1.98 E
2019	\$0.41 A	\$0.40 A	\$0.32 A	\$0.71 A	\$1.83 A

*Quarterly figures may not add up to annual.

P/E TTM	29.6
P/E F1	24.5
PEG F1	1.0
P/S TTM	2.6

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/21/2020. The reports text is as of 02/24/2020.

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 November 2, 2019, 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 (15.1% of 2018 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 (11%): packaged food including coffee, bottled non-carbonated beverages, salty snacks, condiments, sauces, spices, dry pasta, canned goods, cereal and cookies.

Bed and bath (10.1%): household goods including bedding, towels, curtains and associated hardware.

Books and stationery (9.4%): novels, children's, how-to, business, cooking, inspirational and coffee table books along with DVDs, greeting cards and various office supplies and party goods.

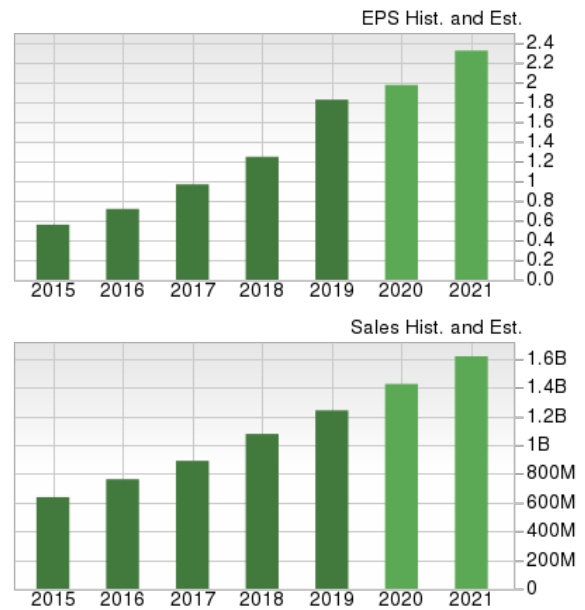
Floor coverings (7.8%): laminate flooring, commercial and residential carpeting, area rugs and floor mats.

Electronics (6.8%): air conditioners, home electronics, cellular accessories and as seen on television.

Toys (6.8%): dolls, action figures, puzzles, educational toys, board games and other related items.

Health and beauty aids (5.6%): personal care, hair care, oral care, health and wellness, over-the-counter medicine, first aid, sun care, and personal grooming.

Other (27.4%): hardware, candy, clothing, sporting goods, pet products, luggage, automotive, seasonal, furniture, summer furniture and lawn & garden.



Reasons To Buy:

▲ **Impressive Q3 Performance:** Ollie's Bargain posted better-than-expected third-quarter fiscal 2019 results, wherein both the top and bottom lines improved from the year-ago period. Margins also expanded on a year-over-year basis. The company delivered adjusted earnings of 41 cents a share that beat the Zacks Consensus Estimate by a couple of cents and surged 28.1% from the year-ago quarter's figure of 32 cents. This year-over-year increase can be attributed to higher net sales and better expense management. Management is optimistic about its business model of "buying cheap and selling cheap," and remains focused on improving store productivity and expanding of customer reward program, Ollie's Army. The company reaffirmed fiscal year sales and earnings view.

Ollie's Bargain's business model of "buying cheap and selling cheap", cost-containment efforts and customer reward program fortify its 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. The company's results are highly dependent on the availability of brand name and closeout merchandise at compelling prices, as the same represents roughly 70% of goods purchased. 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. 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 18.1% from \$638 million in fiscal 2014 to \$1.241 billion in fiscal 2018, while net income has soared from \$26.9 million to \$135 million during the aforementioned period.

▲ **Decent Top-Line Performance:** Following an increase of 17.8% and 15.9% in the first and second quarters of fiscal 2019, respectively, Ollie's Bargain net sales grew 15.3% to \$327 million in the third 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. Ollie's Bargain continues to expect net sales between \$1.419 billion and \$1.430 billion, which shows an improvement over \$1.241 billion generated in the prior year.

▲ **Store Growth Opportunity:** Management believes that there is a significant room to increase its store count to more than 950. The company has increased its store base at a CAGR of 14.5% from 176 stores in fiscal 2014 to 303 stores in fiscal 2018. We note that the company has opened 28, 31, 34 and 37 stores in fiscal 2015, 2016, 2017 and 2018, respectively. During the third quarter of fiscal 2019 the company opened 13 outlets, after opening eight and 21 stores in the second and first quarters, respectively. This completes the company's fiscal 2019 target and took the total store count to 345 in 25 states as of November 2, 2019. Further, the company targets a store size between 25,000 and 35,000 square feet.

Reasons To Sell:

- ▼ **Sluggish Comps Performance:** Shares of Ollie's Bargain have slid 12% as against the industry's rise of 6.8% in the past three months. Soft comparable-store sales performance during third-quarter fiscal 2019 may be cited as one of the reasons behind stock's dismal run on the bourses. Comparable-store sales declined 1.4% during the third quarter of fiscal 2019, following a decrease of 1.7% in the preceding period. We note that the figure also compared unfavorably with 4.6% increase registered in the prior-year quarter. Cannibalization of comparable stores and short-term supply chain pressures hurt the comparable-store sales performance. Moreover, store classes with outstanding first-year sales now normalizing as they entered the comparable store base, acted as headwind. The company continues to expect comparable-store sales to decrease in the range of 0.5-1.5%, which is down from 4.2% increase reported in fiscal 2018.
- ▼ **SG&A Expenses Continue to Increase:** Selling, general and administrative expenses have been increasing for quite some time now. In the third quarter of fiscal 2019, the same rose 15.4% to \$90.5 million due to higher number of stores and increased sales volumes. However, as a percentage of net sales, selling, general and administrative expenses remained flat at 27.7%. We note that selling, general and administrative expenses have increased 19.7% 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.
- ▼ **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.

Comparable-store sales declined 1.4% during the quarter under review. Cannibalization of comparable stores and short-term supply chain pressures hurt the comparable-store sales performance.

Last Earnings Report

Ollie's Bargain Q3 Earnings Top Estimates

Ollie's Bargain Outlet Holdings, Inc. reported better-than-expected third-quarter fiscal 2019 results, wherein both the top and bottom lines improved from the year-ago period. Margins also expanded on a year-over-year basis. However, the company continued to witness soft comparable-store sales performance. Nonetheless, management reaffirmed fiscal year sales and earnings view.

Management is optimistic about its business model of "buying cheap and selling cheap," and remains focused on improving store productivity and expanding of customer reward program, Ollie's Army.

Quarter Ending **10/2019**

Report Date	Dec 10, 2019
Sales Surprise	1.31%
EPS Surprise	5.13%
Quarterly EPS	0.41
Annual EPS (TTM)	1.93

Quarterly Results

Ollie's Bargain delivered adjusted earnings of 41 cents a share that beat the Zacks Consensus Estimate by a couple of cents and surged 28.1% from the year-ago quarter's figure of 32 cents. This year-over-year increase can be attributed to higher net sales and better expense management.

Notably, net sales improved 15.3% to \$327 million and came ahead of the consensus mark of \$322.8 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 1.4% during the quarter under review, following a decline of 1.7% in the preceding period. We note that the reported figure compared unfavorably with the prior-year quarter's increase of 4.6%.

Meanwhile, gross profit rose 15.5% to \$133.3 million during the quarter. Again, gross margin expanded 10 basis points to 40.8% owing to higher merchandise margin, partly offset by increased supply chain costs as a percentage of net sales.

While operating income grew 22% to \$35.7 million, operating margin increased 60 basis points to 10.9% on account of gross margin expansion and reduction of pre-opening expenses as a percentage of net sales. This was partly offset by deleveraging of depreciation and amortization expenses.

SG&A expenses jumped 15.4% to \$90.5 million due to higher number of stores. However, as a percentage of net sales, SG&A expenses remained flat at 27.7%.

Adjusted EBITDA increased 22.5% to \$42.6 million during the reported quarter, while adjusted EBITDA margin expanded 80 basis points to 13%.

Store Update

During the quarter under review, the company opened 13 outlets, thereby taking the total store count to 345 in 25 states as of Nov 2, 2019.

Financial Aspects

Ollie's Bargain ended the quarter with cash and cash equivalents of \$10.1 million, total borrowings (consisting solely of capital lease obligations) of \$0.8 million, and shareholders' equity of \$1,006.9 million.

The company incurred capital expenditure of \$24.2 million during the quarter under review thanks to investments in the third distribution center. Management anticipates capital expenditure in the range of \$75-\$80 million for fiscal 2019.

During the quarter, the company repurchased approximately 689,000 shares worth \$40 million. At the end of the quarter, the company had \$60 million remaining under its current share repurchase program.

Guidance

Management continues to envision fiscal 2019 adjusted earnings in the band of \$1.95-\$2.00 per share, which is higher than \$1.83 reported in fiscal 2018.

Ollie's Bargain reiterated net sales forecast of \$1.419-\$1.430 billion. The projected figure shows an improvement over \$1.241 billion generated in the prior year. The company expects comparable-store sales to decrease in the range of 0.5-1.5%, which is down from 4.2% increase reported in fiscal 2018.

Operating income is projected in the band of \$174-\$178 million for the current fiscal year, up from \$162.1 million reported in the prior year. Management anticipates gross margin to be 39.5%.

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 12.6% and nearly 35.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are up 1.7% and 0.3%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry is down 6.9% but the sector is up 14.3%.

The S&P 500 index is up 3.8% in the year-to-date period and 21.1% in the past year.

The stock is currently trading at 24.28X forward 12-month earnings, which compares to 21.28X for the Zacks sub-industry, 19.71X for the Zacks sector and 19.09X for the S&P 500 index.

Over the past five years, the stock has traded as high as 49.07X and as low as 20.76X, with a 5-year median of 32.13X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$60 price target reflects 25.51X 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	24.28	21.28	19.71	19.09
	5-Year High	49.07	21.93	22.38	19.34
	5-Year Low	20.76	13.74	16.66	15.18
	5-Year Median	32.13	17.97	19.71	17.47
P/S F12M	Current	2.23	1.89	10.05	3.51
	5-Year High	4.43	2.12	11.13	3.51
	5-Year Low	1.09	1.57	8.09	2.54
	5-Year Median	2.38	1.93	9.88	3
EV/EBITDA TTM	Current	22.07	9.62	40.02	12
	5-Year High	58.22	20.5	44.94	12.87
	5-Year Low	13.61	3.71	31.55	8.48
	5-Year Median	24.7	13.01	38.45	10.77

As of 02/21/2020

Industry Analysis Zacks Industry Rank: Bottom 34% (168 out of 255)



Top Peers

Big Lots, Inc. (BIG)	Neutral
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

Industry Comparison Industry: Consumer Products - Staples				Industry Peers		
	OLLI Neutral	X Industry	S&P 500	COST Neutral	DG Neutral	TGT Neutral
VGM Score	D	-	-	A	B	A
Market Cap	3.64 B	3.57 B	24.03 B	142.22 B	42.49 B	59.29 B
# of Analysts	8	4	13	10	23	12
Dividend Yield	0.00%	0.00%	1.76%	0.81%	0.77%	2.26%
Value Score	C	-	-	C	C	B
Cash/Price	0.00	0.04	0.04	0.07	0.01	0.02
EV/EBITDA	22.10	15.58	14.08	21.81	20.50	10.75
PEG Ratio	0.99	2.74	2.08	4.59	1.91	2.27
Price/Book (P/B)	3.61	3.61	3.29	8.77	6.39	5.14
Price/Cash Flow (P/CF)	26.53	12.63	13.42	27.65	21.47	11.41
P/E (F1)	23.77	19.46	19.00	37.20	22.48	17.11
Price/Sales (P/S)	2.63	1.66	2.64	0.92	1.56	0.76
Earnings Yield	4.08%	4.98%	5.26%	2.69%	4.45%	5.85%
Debt/Equity	0.28	0.68	0.70	0.47	1.57	1.10
Cash Flow (\$/share)	2.15	4.48	7.03	11.64	7.77	10.25
Growth Score	D	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	33.43%	3.38%	10.84%	11.29%	13.32%	7.70%
Proj. EPS Growth (F1/F0)	17.62%	5.50%	7.09%	5.67%	11.59%	7.66%
Curr. Cash Flow Growth	43.94%	-2.28%	6.72%	14.92%	25.19%	5.59%
Hist. Cash Flow Growth (3-5 yrs)	34.22%	4.69%	8.25%	10.65%	8.34%	2.16%
Current Ratio	2.14	1.79	1.22	1.01	1.12	0.83
Debt/Capital	21.76%	44.89%	42.37%	31.75%	61.12%	52.42%
Net Margin	10.20%	2.68%	11.56%	2.42%	6.09%	4.18%
Return on Equity	12.89%	13.40%	16.80%	24.22%	25.53%	28.22%
Sales/Assets	0.97	0.97	0.55	3.37	1.38	1.86
Proj. Sales Growth (F1/F0)	13.50%	4.19%	3.90%	6.72%	7.63%	3.69%
Momentum Score	F	-	-	B	D	B
Daily Price Chg	0.30%	-0.38%	-0.83%	-0.66%	0.69%	-1.06%
1 Week Price Chg	13.75%	2.94%	1.65%	1.49%	1.97%	0.88%
4 Week Price Chg	1.03%	-2.28%	-0.37%	2.90%	7.57%	1.28%
12 Week Price Chg	-13.34%	-0.26%	3.74%	7.05%	5.34%	-7.06%
52 Week Price Chg	-34.80%	0.00%	14.14%	49.58%	40.87%	62.45%
20 Day Average Volume	1,522,008	762,993	1,992,841	1,683,478	1,160,945	3,819,591
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.56%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.75%	-0.62%	-0.02%	0.55%	-0.04%	0.20%
(F1) EPS Est 12 week change	0.54%	-1.82%	-0.17%	1.09%	0.71%	-0.16%
(Q1) EPS Est Mthly Chg	-1.98%	-2.81%	-0.48%	-0.13%	0.00%	0.00%

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	D
Momentum Score	F
VGM Score	D

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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