



CUBEWEALTH

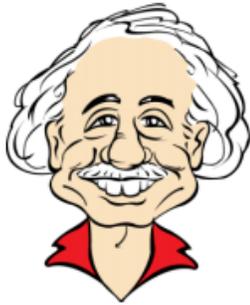
OLLIE'S BARGAIN OUTLET EQUITY REPORT

MARCH 21ST, 2020

OLLIE'S BARGAIN OUTLET

BY THE NUMBERS

TICKER: OLLI
PRICE: \$38.78



OLLIE'S *Bargain* **OUTLET**
"GOOD STUFF CHEAP"

Ollie's Bargain Outlet Holdings, Inc. operates as a retailer of brand name merchandise. The company offers food products, housewares, books and stationery, bed and bath products, health and beauty products, floor coverings, electronics, and toys; and other products, including hardware, personal health care, candy, clothing, sporting, pet and lawn, and garden products.

The company has approximately 345 stores in 25 states in the eastern half of the United States. The company was formerly known as Bargain Holdings, Inc. and changed its name to Ollie's Bargain Outlet Holdings, Inc. in March 2015. Ollie's Bargain Outlet Holdings, Inc. was founded in 1982 and is headquartered in Harrisburg, Pennsylvania.

N/A

DIVIDEND YIELD

-41%

YTD RETURN

\$2.5B

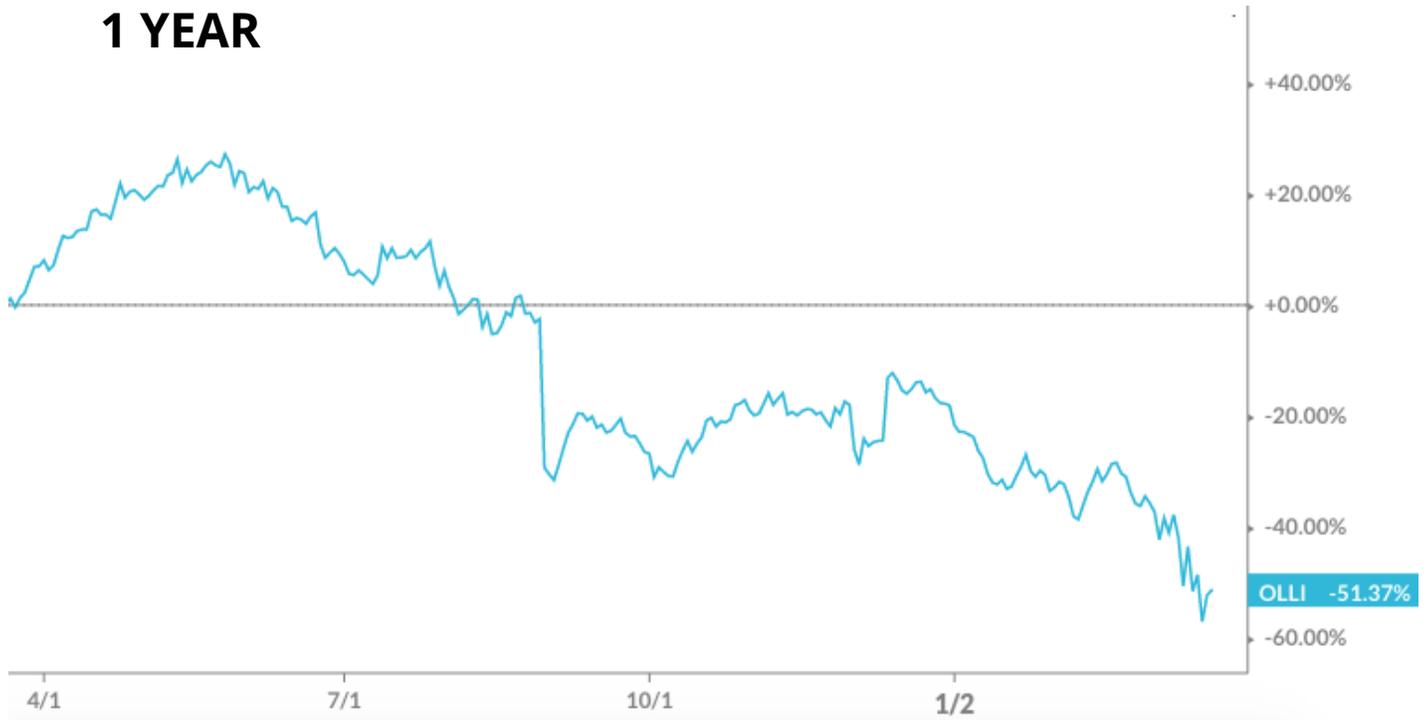
MARKET CAP

OLLI

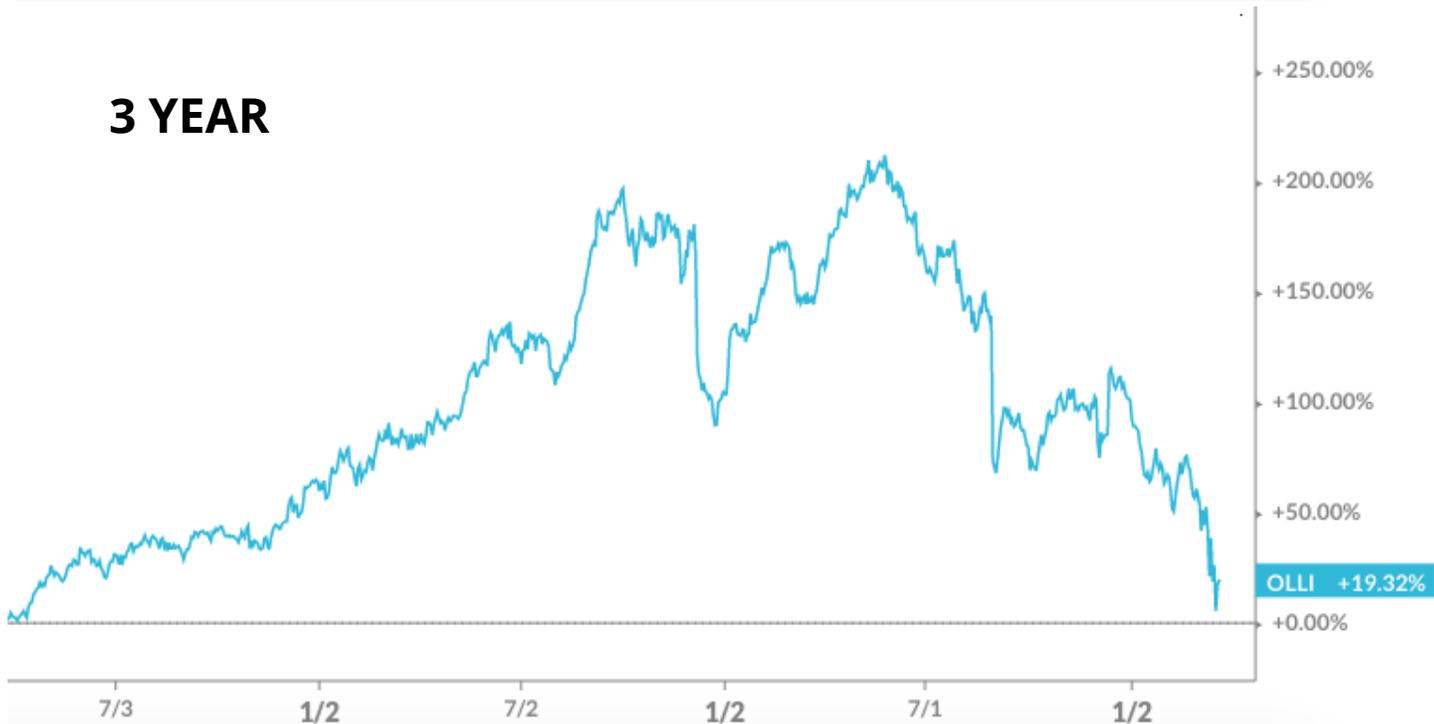


SHARE PRICE PERFORMANCE

1 YEAR



3 YEAR



ANALYSIS

When it comes to brick and mortar stores like that of OLLI, there are several key measures CUBE puts a lot of weight on:

1. Comparable store sales
2. Revenue growth
3. Store location growth

As always, the dozens of other valuation measures CUBE uses are important but when it comes to companies in this space, these are 3 very important metrics.

1. Comparable Store Sales

- a. In Q4, OLLI reported comparable sales fell -4.9% in Q4 to miss the consensus estimate of -2.2%.
- b. In Q3, comparable sales fall by -1.4% in Q3 to miss the consensus estimate for a -1.1% drop
- c. In Q2, comparable sales turned lower by -1.7% vs. N/A
- d. In Q1, comparable sales rose 0.8% in Q1 to fall short of the consensus estimate +1.5%.

We're going to kick this off by mentioning this is one the biggest red flags for CUBE. At a time when many retailers have been pushing

healthy comparable sales like Costco, Dollar General, Dollar Tree, Target, Walmart, etc. OLLI has been tanking with a third straight negative Y/Y comp. What's more nerve racking is how much it accelerated from -1% to -2% in Q2 and Q3 and suddenly dropped to a whopping -4.9% in Q4. It's even worse when you take into account in Q4 2018, comp sales rose +5.4% Y/Y, a 10.5% swing.

For reference:

2015 Comp Sales: +6.0%

2016 Comp Sales: +3.2%

2017 Comp Sales +3.3%

2018 Comp Sales: +4.2%

2019 Comp Sales: -2.1%

2. Revenue Growth

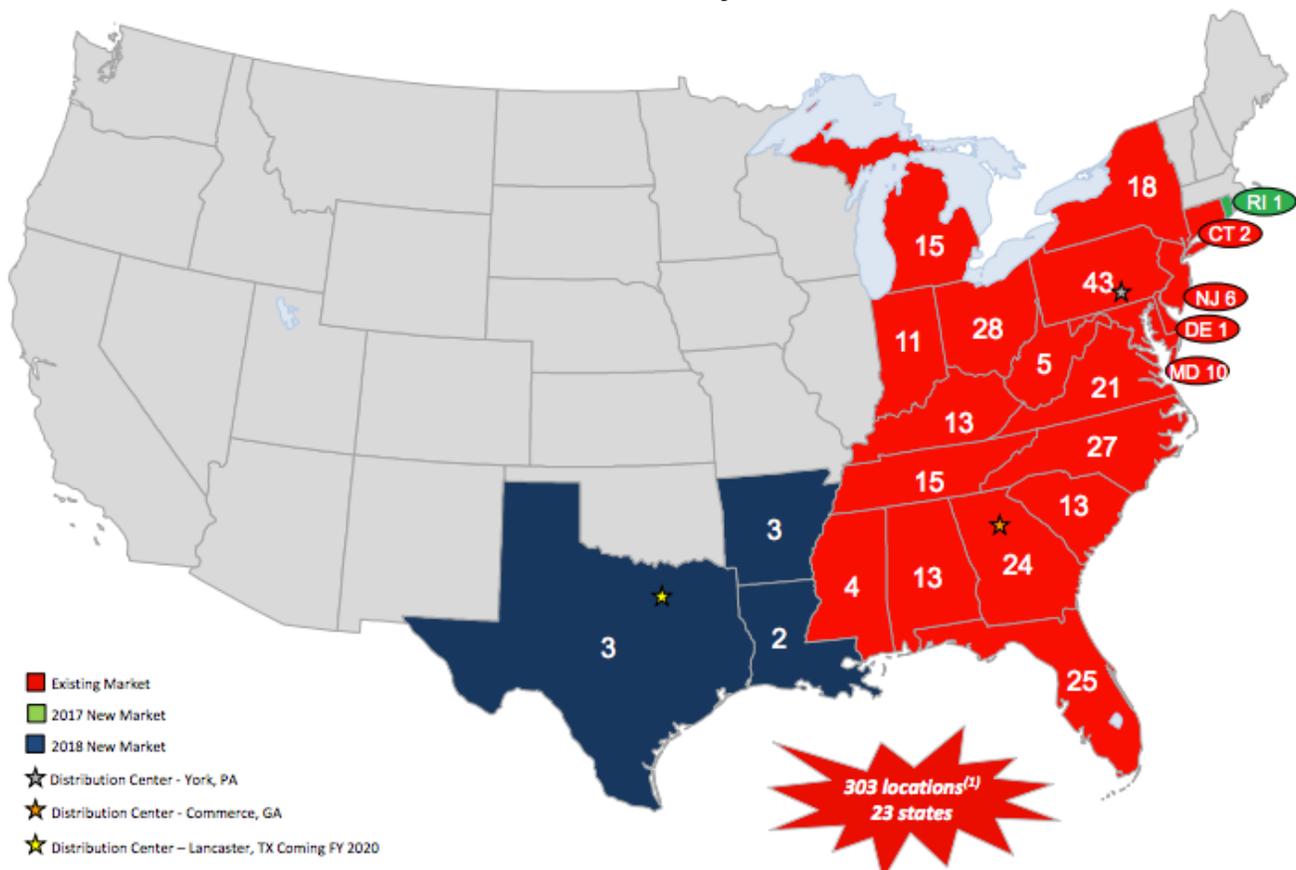
When we look at revenue growth, and we'll discuss this more later on, it looks good at the surface. OLLI grew sales 7.2% Y/Y in Q4 and 13.9% Y/Y for 2019.

The issue is found in point #3.

3. Store Location Growth

OLLI increased their location count from 303 to 345 Y/Y, an increase of 13.9% - which is identical to the amount total revenues grew. What does this mean? If OLLI stops opening locations, revenue growth won't stay flat, it will fall Y/Y as stores seem to be struggling after they are open for a while and the growth story shatters. Looking at this year, the delay in store openings from corona and possible store shutdown could impact these figures massively.

As of February 2019



	13 Weeks Ended February 1, 2020	13 Weeks Ended February 2, 2019	52 Weeks Ended February 1, 2020	52 Weeks Ended February 2, 2019
Number of stores open at beginning of period	345	297	303	268
Number of new stores	-	6	42	37
Number of closed stores	-	-	-	(2)
Number of stores open at end of period	345	303	345	303
Average net sales per store (in thousands) ⁽¹⁾	\$ 1,220	\$ 1,302	\$ 4,234	\$ 4,330
Comparable stores sales change	(4.9)%	5.4%	(2.1)%	4.2%
Comparable store count – end of period	288	260	288	260

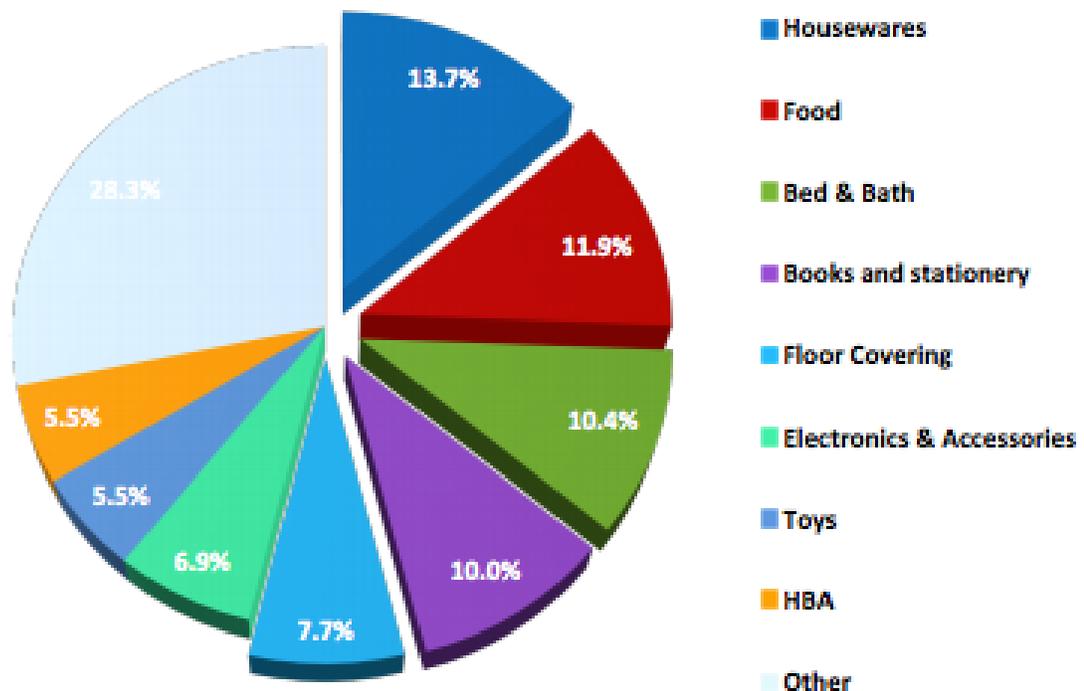
While under review, their current plans for 2020 include opening 47 to 49 new stores with 1 planned closure, a more normalized store opening cadence with an approximate 50/50 split between first and second half openings, and capital expenditures of \$30-\$35M, primarily for new stores, IT projects and store level initiatives.

Taking a look inside the stores now, we see from the diagram below that OLLI sells a multitude of products.

We want to highlight one area in particular. Food only makes up 11.9% of net sales. CUBE is mentioning this because it may not be enough to be considered an "essential" store that will remain open during the coronavirus.

Broad Selection of "Good Stuff Cheap"

Net sales by merchandise category for FY 2017



With COVID-19 shutting businesses down left and right indefinitely, it's good to examine and understand the health of OLLI's balance sheet and whether they can afford and handle a store-wide shutdown if they aren't considered an essential business that will remain open. On the conference call this week, the CFO said the following:

"We feel like, if we close stores given the fact that we've got about over \$100 million of cash today, we had \$90 million at year-end, but now we've got north of \$100 million, we've got \$100 million of availability on our line of credit is virtually covenant light, covenant free, depending how high we borrow into that line. And then beyond that, if we needed to, there's another \$150 million of loan that we could tap into. But we haven't had to think about that. But even just taking the cash on hand and the line of credit of \$100 million, we think, with our stores closed and, obviously, managing our capital and our expenses, we have liquidity, I would say, 8 to 12 months without a whole lot of effort on it." -

Jay Stasz CFO

While shutting down is most certainly bad news, the silver lining is that OLLI has sufficient cash on hand and access to credit to tap into. This is one less risk to worry about as it is something everyone should be eyeing up in this environment.

This is another big red flag for CUBE. OLLI's insiders have not been touching the stock at all for the last year. The company insiders have not purchased a share in the last 3 months while their stock has fallen over 40% and have only purchased 2,000 shares in the last 12 months. This is vs. selling to the tune of nearly 28,000 shares in the last 3 months and 228,000 in the last 12 months. Leading up to the earnings, insiders were exercising a lot of their options to profit on.

Not a good look in our view.

Number of Insider Shares Traded

INSIDER TRADE	3 MONTHS	12 MONTHS
Number of Shares Bought	0	2,000
Number of Shares Sold	27,843	227,993
Total Shares Traded	27,843	229,993
Net Activity	27,843	225,993

CUBE'S TOP PROS FOR OLLI



GROWING
LOCATIONS



ACCESS TO
CAPITAL



RECESSION
"RESISTANT"
(IF OPEN)

CUBE'S TOP CONS FOR OLLI



NEGATIVE COMP
SALES



GROWTH ONLY
FROM NEW
STORES



INSIDER
SELLING

FINANCIAL STATEMENTS

BALANCE SHEET

	February 1, 2020	February 2, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 89,950	\$ 51,941
Inventories	335,181	296,407
Accounts receivable	2,840	570
Prepaid expenses and other assets	5,568	9,579
Total current assets	433,539	358,497
Property and equipment, net	132,084	119,052
Operating lease right-of-use assets ⁽¹⁾	348,732	-
Goodwill	444,850	444,850
Trade name and other intangible assets, net	230,559	232,304
Other assets	2,532	4,300
Total assets	<u>\$ 1,592,296</u>	<u>\$ 1,159,003</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 273	\$ 238
Accounts payable	63,223	77,431
Income taxes payable	3,906	7,393
Current portion of operating lease liabilities ⁽¹⁾	52,847	-
Accrued expenses and other	56,732	65,934
Total current liabilities	176,981	150,996
Revolving credit facility	-	-
Long-term debt	527	441
Deferred income taxes	59,401	55,616
Long-term operating lease liabilities ⁽¹⁾	296,496	-
Other long-term liabilities	6	9,298
Total liabilities	<u>533,411</u>	<u>216,351</u>
Stockholders' equity:		
Common stock	64	63
Additional paid-in capital	615,350	600,234
Retained earnings	483,571	342,441
Treasury - common stock	(40,100)	(86)
Total stockholders' equity	<u>1,058,885</u>	<u>942,652</u>
Total liabilities and stockholders' equity	<u>\$ 1,592,296</u>	<u>\$ 1,159,003</u>

Looking at the balance sheet, OLLI is in pretty good standing. Their cash balance as of the end of fiscal 2019 was \$90.0M compared with \$51.9M as of the end of 2018. They had no borrowings outstanding under their \$100M revolving credit facility and \$90.8M of availability under the facility as of the end of fiscal 2019.

The company also ended the period with total borrowings, consisting solely of finance lease obligations, of \$0.8M compared with total borrowings of \$0.7M as of the end of fiscal 2018.

Inventories as of the end of fiscal 2019 increased 13.1% to \$335.2M compared with \$296.4M as of the end of fiscal 2018, primarily due to new store growth and timing of deal flow.

Capital expenditures in fiscal 2019, primarily for investments in the continued build-out of the OLLI's third distribution center and new stores, totaled \$77.0M.

During 2019, they invested \$40M to repurchase approximately 689,000 shares of stock. They have \$60 million of capacity remaining under the current share repurchase program, and will consider additional buybacks if determined to be the best use of capital.

CUBE isn't sure if OLLI is going to exercise their share buyback program during these turbulent times as most companies simply aren't. Many are looking to hunker down on cash outflows right now and OLLI will most likely follow suit.

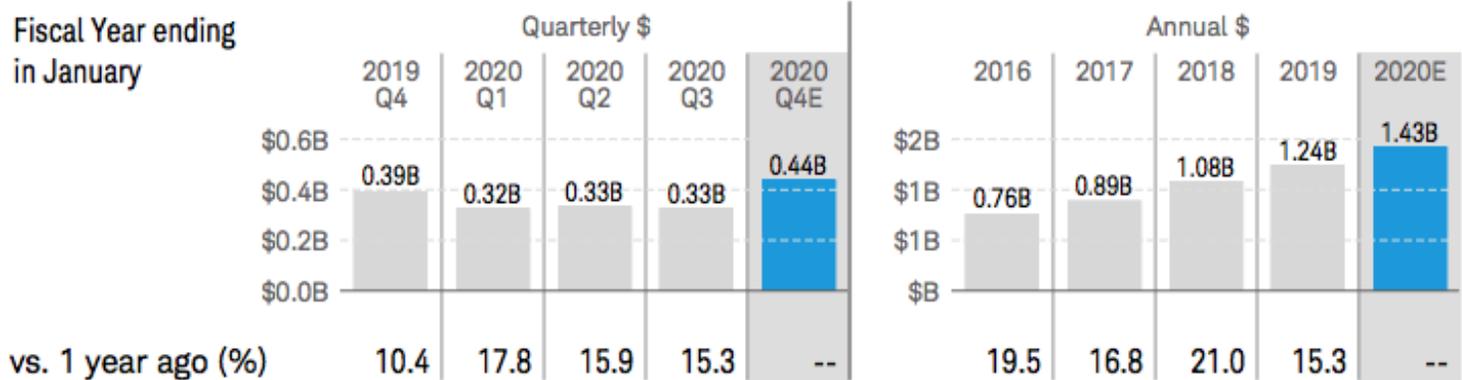
FINANCIAL STATEMENTS

INCOME STATEMENT

	<u>13 Weeks Ended</u> <u>February 1, 2020</u>	<u>13 Weeks Ended</u> <u>February 2, 2019</u>	<u>52 Weeks Ended</u> <u>February 1, 2020</u>	<u>52 Weeks Ended</u> <u>February 2, 2019</u>
Net sales	\$ 422,431	\$ 393,934	\$ 1,408,199	\$ 1,241,377
Cost of sales	256,891	237,205	852,610	743,726
Gross profit	165,540	156,729	555,589	497,651
Selling, general and administrative expenses	94,897	88,996	356,060	312,790
Depreciation and amortization expenses	3,895	3,133	14,582	11,664
Pre-opening expenses	2,161	2,683	13,092	11,143
Operating income	64,587	61,917	171,855	162,054
Interest (income) expense, net	(219)	73	(878)	1,261
Loss on extinguishment of debt	-	50	-	150
Income before income taxes	64,806	61,794	172,733	160,643
Income tax expense	14,519	11,900	31,603	25,630
Net income	<u>\$ 50,287</u>	<u>\$ 49,894</u>	<u>\$ 141,130</u>	<u>\$ 135,013</u>
Earnings per common share:				
Basic	\$ 0.80	\$ 0.79	\$ 2.23	\$ 2.16
Diluted	\$ 0.77	\$ 0.76	\$ 2.14	\$ 2.05
Weighted average common shares outstanding:				
Basic	62,980	62,915	63,214	62,568
Diluted	65,347	66,038	65,874	65,905
Percentage of net sales⁽¹⁾				
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	60.8	60.2	60.5	59.9
Gross profit	39.2	39.8	39.5	40.1
Selling, general and administrative expenses	22.5	22.6	25.3	25.2
Depreciation and amortization expenses	0.9	0.8	1.0	0.9
Pre-opening expenses	0.5	0.7	0.9	0.9
Operating income	15.3	15.7	12.2	13.1
Interest (income) expense, net	(0.1)	0.0	(0.1)	0.1
Loss on extinguishment of debt	—	0.0	—	0.0
Income before income taxes	15.3	15.7	12.3	12.9
Income tax expense	3.4	3.0	2.2	2.1
Net income	<u>11.9%</u>	<u>12.7%</u>	<u>10.0%</u>	<u>10.9%</u>

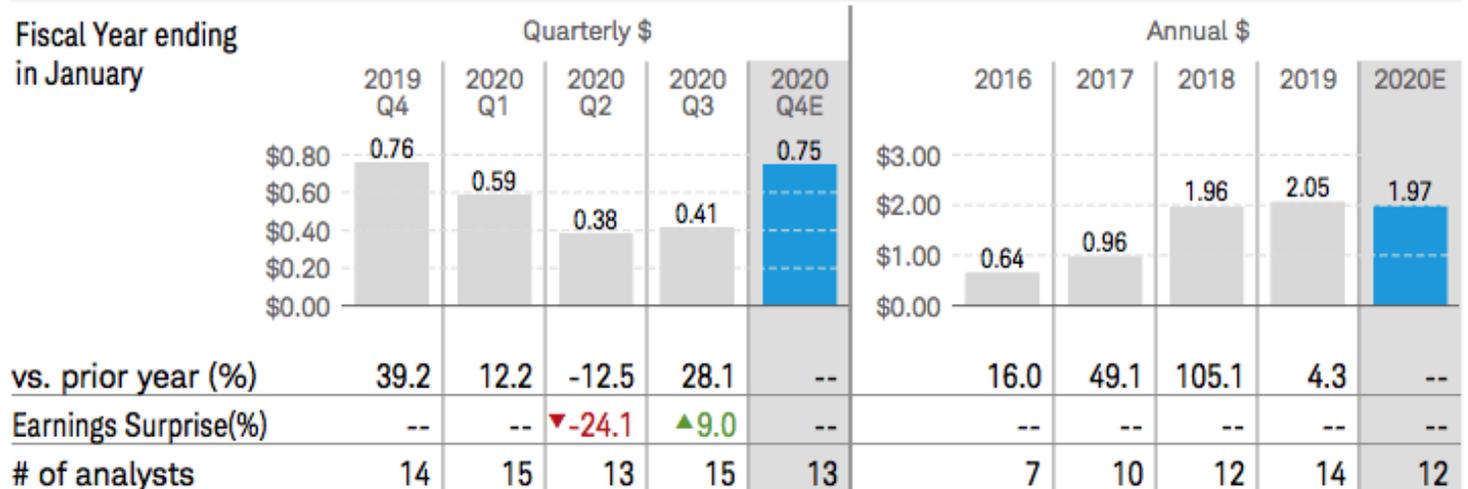
REVENUE

Revenue data source: Reuters



EARNINGS PER SHARE

Earnings data source: Reuters



We'll also notice from the images above, aside from missing estimates in Q4, OLLI also posted much lower margins for the quarter and year. Net income margin in 2020 came in at 10% vs. 10.9% in 2019 and in Q4 specifically, net income margin fell from 12.7% to 11.9%.

Fourth Quarter Summary:

- Total net sales increased 7.2% to \$422.4M
- Comparable store sales decreased -4.9% from a +5.4% increase in the prior year.
- The company ended the year with a total of 345 stores in 25 states, a 13.9% Y/Y increase in store count.
- Operating income increased 4.3% to \$64.6M
- Adjusted operating income increased 3.6% to \$64.1M
- Adjusted net income increased 3.6% to \$48.7M and adjusted net income per diluted share increased 4.2% to \$0.74.
- Adjusted EBITDA increased 2.4% to \$69.3M

Fiscal Year Summary:

- Total net sales increased 13.4% to \$1.408B.
- Comparable store sales decreased -2.1% from a +4.2% increase in the prior year.
- Operating income increased 6.0% to \$171.9M
- Adjusted operating income increased 5.4% to \$170.8M
- Adjusted net income increased 7.1% to \$129.1M and adjusted net income per diluted share increased 7.1% to \$1.96.
- Adjusted EBITDA increased 6.7% to \$196.0M

Due to coronavirus, OLLI chose not to give a 2020 guidance and this is most likely because the damage is too hard to predict. CUBE expects another year of negative comparable sales and even slower growth. If OLLI doesn't open their new stores, investors are going to see the true health of their current up-and-running locations.

FINANCIAL STATEMENTS

CASH FLOW

	13 Weeks Ended February 1, 2020	13 Weeks Ended February 2, 2019	52 Weeks Ended February 1, 2020	52 Weeks Ended February 2, 2019
Net cash provided by operating activities	\$ 91,072	\$ 79,169	\$ 105,344	\$ 126,079
Net cash used in investing activities	(12,323)	(11,198)	(34,124)	(73,848)
Net cash provided by (used in) financing activities	1,100	(16,766)	(33,211)	(39,524)
Net increase in cash and cash equivalents	79,849	51,205	38,009	12,707
Cash and cash equivalents at the beginning of the period	10,101	736	51,941	39,234
Cash and cash equivalents at the end of the period	<u>\$ 89,950</u>	<u>\$ 51,941</u>	<u>\$ 89,950</u>	<u>\$ 51,941</u>

****OLLI has yet to issue their 10K despite posting earnings this week. As a result, CUBE is unable to obtain the full breakdown of the statement of cash flows.

What we do know from the press release is that capital expenditures in fiscal 2018 were \$74.2M, reflecting the company's approximate \$42M purchase of 12 former Toys R Us store sites, new stores and initial investments in the aforementioned distribution center. In fiscal 2019, these former Toys R Us store sites were sold in a sale-leaseback transaction in which the Company received approximately \$42M in proceeds.

In total, operating cash flow was a very healthy \$105M but this was down from \$126M in the year prior - mostly due to the weaker margins mentioned earlier.

Net cash used for investing activities was down \$40M Y/Y which led to the big increase in cash from FY2019 to FY2020.

One more point needs to be mentioned. Most of OLLI's operating cash flow is generated in Q4 and Q. As you can see, of the \$105M in operating free cash flow, \$91M came from Q4 that ended Feb 1. Q1 which ends in May also tends to be a good operating cash flow quarter for them and that's most likely not going to be the case this year as February 1st to May 1 are going to be directly impacted by coronavirus. Q2 and Q3 operating cash flow tend to be negative.

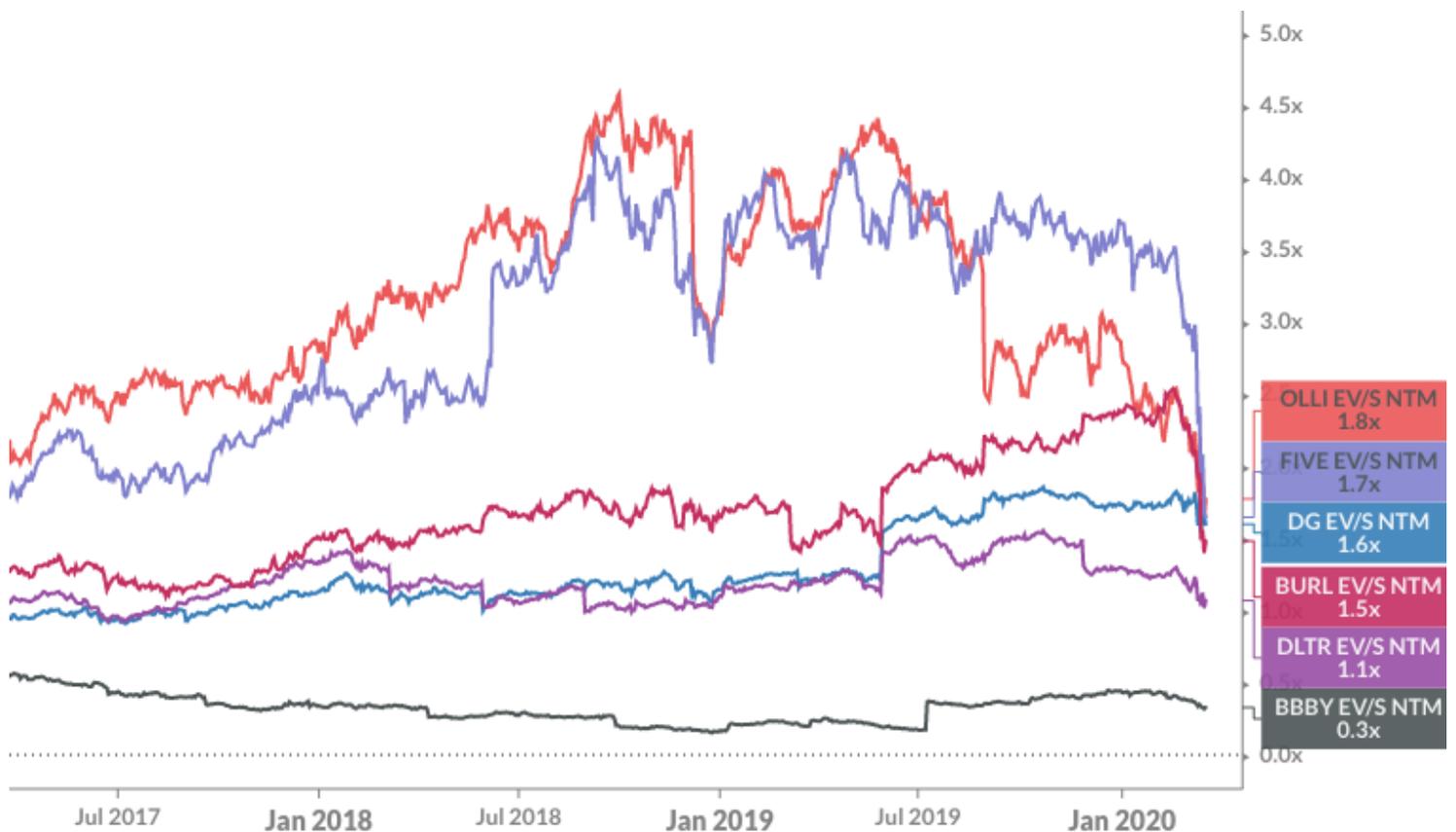
In other words, it's very good that corona didn't hit November - Feb because that's OLLI's best quarter but it will be damaging their second best quarter of the year.



OLLI FUNDAMENTALS

We are going to compare OLLI to other discount retailers such as Dollar Tree (DLTR), Dollar General (DG), Burlington Stores (BURL), Five Below (FIVE), and Bed, Bath, & Beyond (BBBY) as a distressed retailer comparison.

OLLI is the most expensive on a EV/Sales basis at 1.8x. This is not something you want to see as they have the weakest comparable sales.





OLLI FUNDAMENTALS

On a forward EV/EBITDA valuation, OLLI is down the middle. We think its safe to say that these valuations are going to be higher than they seem as it is very difficult to judge the impact of coronavirus.

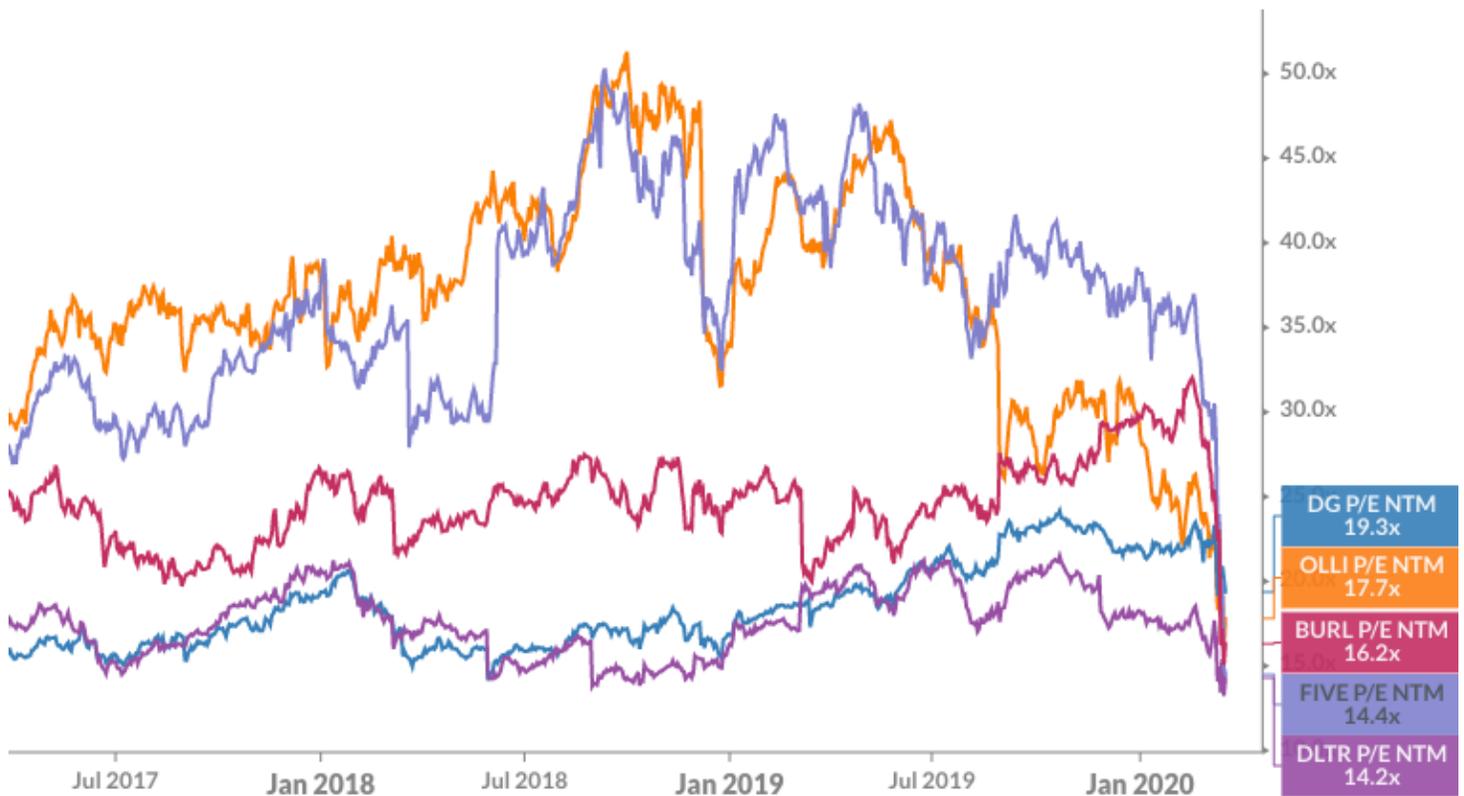
Either way, FIVE, DLTR, and BBBY are trading cheaper than OLLI while DG and BURL are more expensive.





OLLI FUNDAMENTALS

On a price to earnings ratio, OLLI is second most expensive at nearly 18x earnings. Only DG is more expensive as the rest trade around 14-16x. If we take into account the earnings hit on these companies, especially OLLI, its safe to assume they are probably trading well above 20x earnings which CUBE still finds a bit expensive despite the fact that they were trading much higher 3 months ago. These are still premium valuations in comparison to the S&P500.

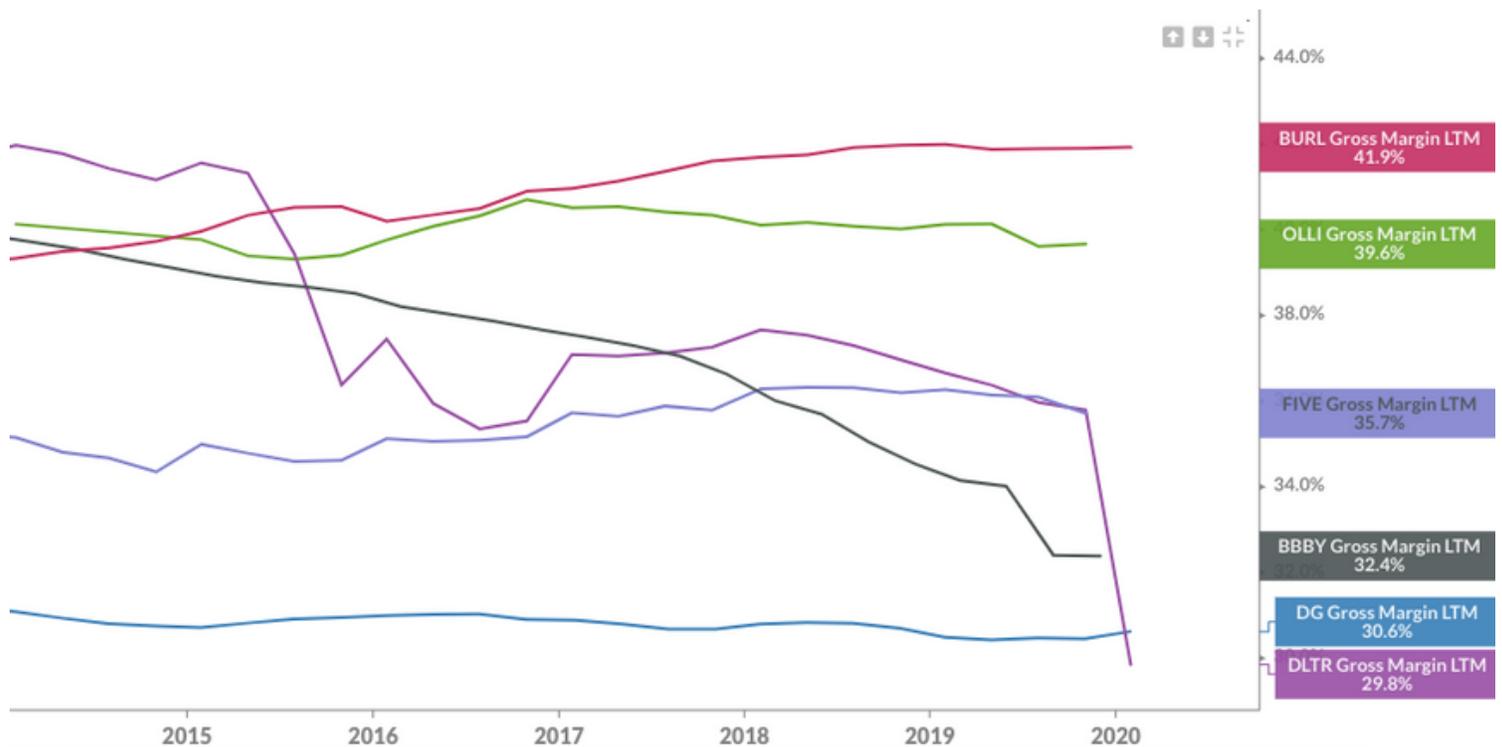




OLLI FUNDAMENTALS

OLLI shines a bit when it comes to gross margins. They are second highest around 39.6% which is a big difference when looking at FIVE, BBBY, DG, and DLTR.

This is one of the highlights for OLLI.

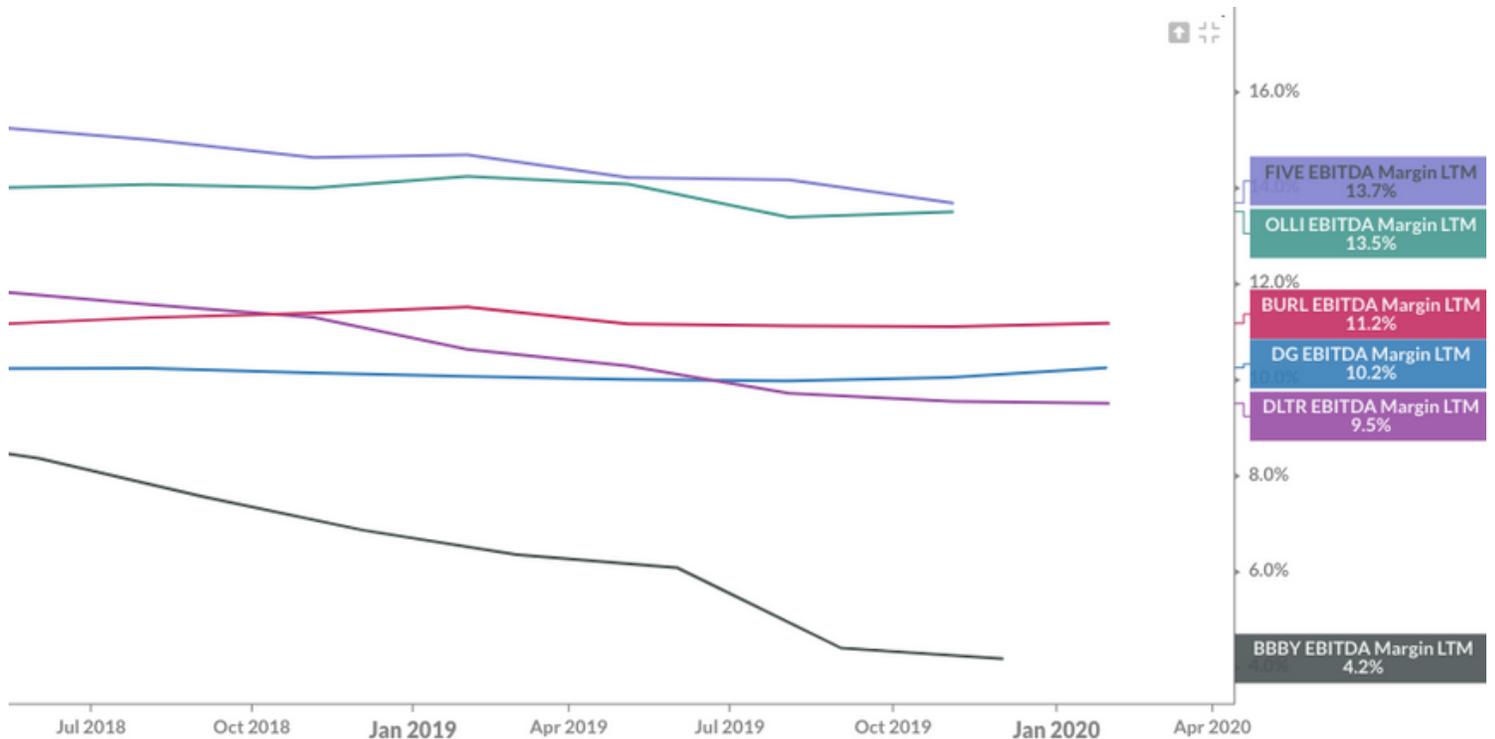




OLLI FUNDAMENTALS

Unfortunately, OLLI hasn't been sending as much of the revenues to EBITDA. FIVE jumps ahead of them with 13.7%.

OLLI still leads BURL, DG, and DLTR by a good amount, though.





OLLI

TECH ANALYSIS

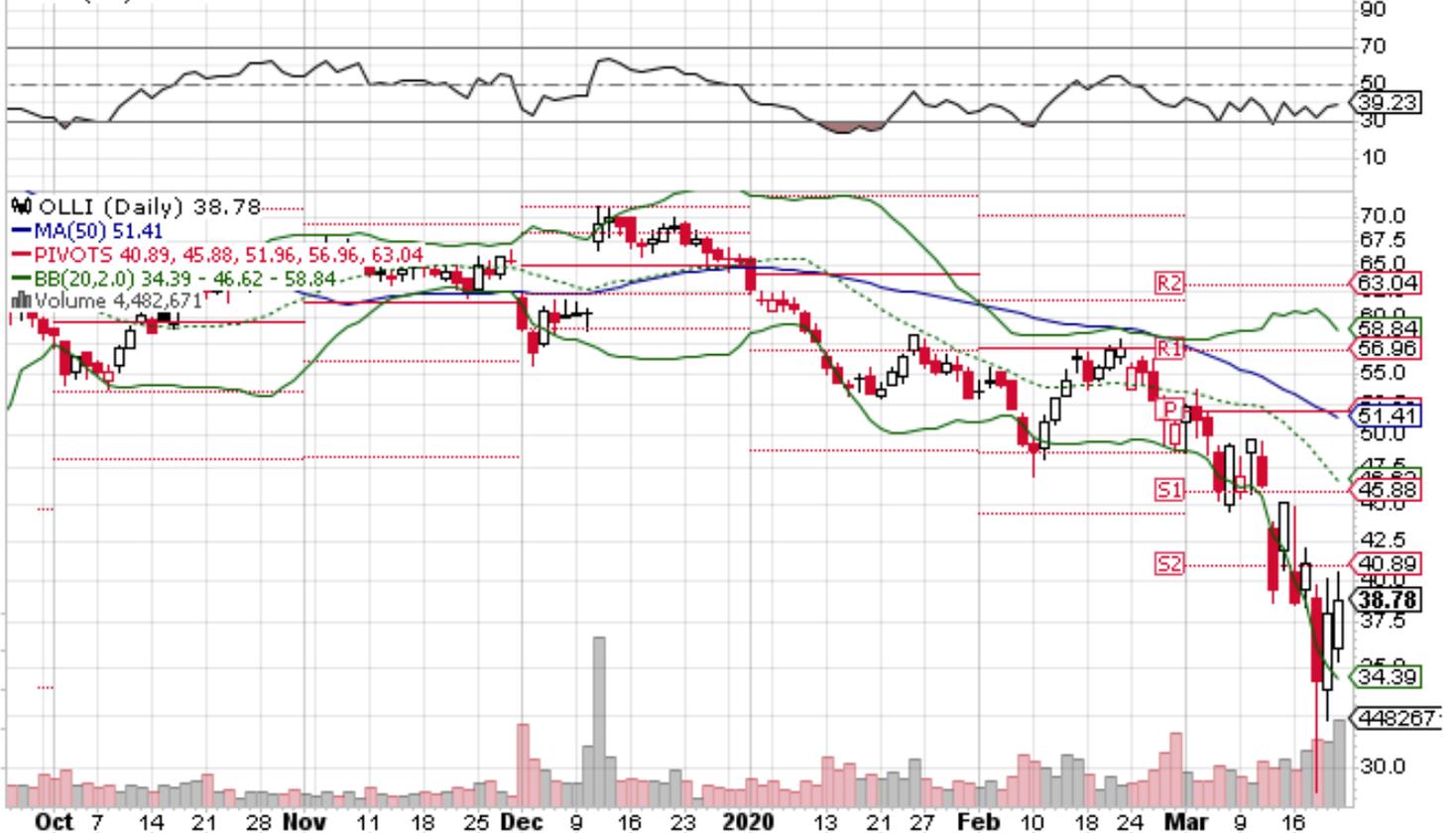
OLLI Ollie's Bargain Outlet Holdings Inc. Nasdaq GM

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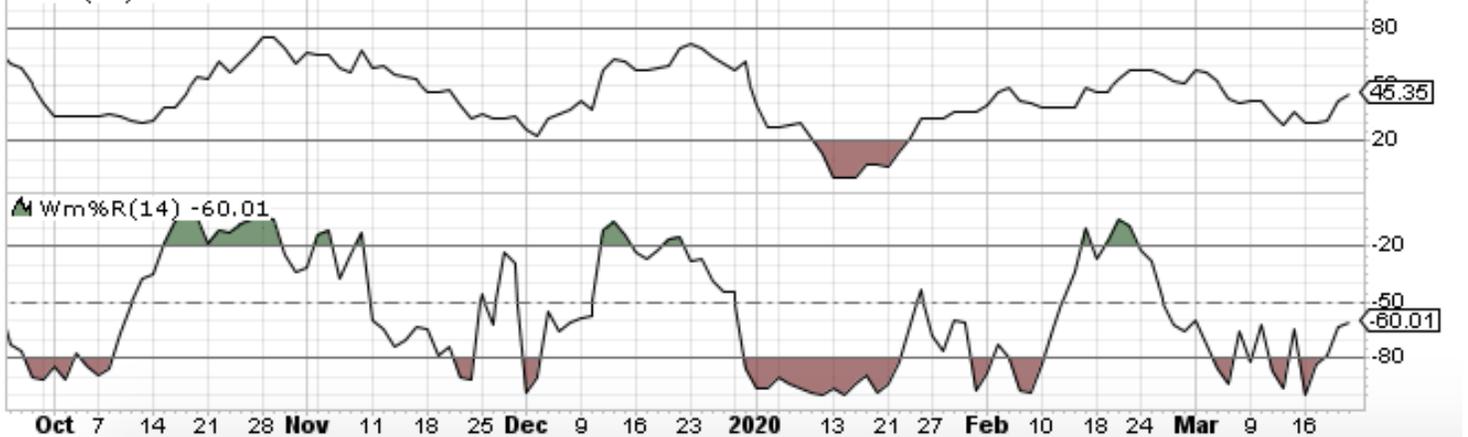
20-Mar-2020

Open 36.08 High 40.50 Low 35.27 Close 38.78 Volume 4.5M Chg +0.72 (+1.89%) ▲

▲ RSI(14) 39.23



▲ MFI(14) 45.35



TECH ANALYSIS SUMMARY

OLLI, like many stocks, is caught in a very tough downtrend. The company has blown through all support levels like that of moving averages and fibonacci levels.

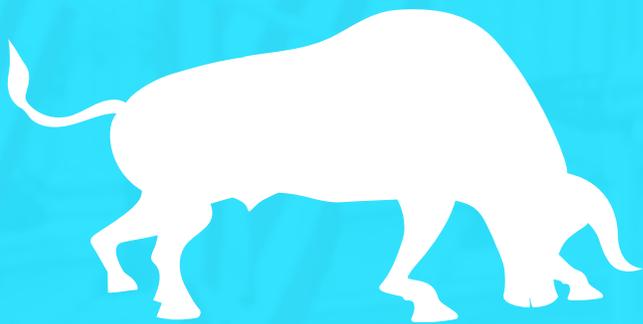
The stock had a recent bounce off the lower bollinger band and the upper wick came close to the S2 support line but quickly pulled back from there.

At this point in time, it looks like there is still more downside in OLLI shares as the stock hasn't yet shown a solid reversal. The recent earnings report could have been a catalyst but wasn't enough to help shares move higher as the company decided against giving a guidance which could have been for the better.

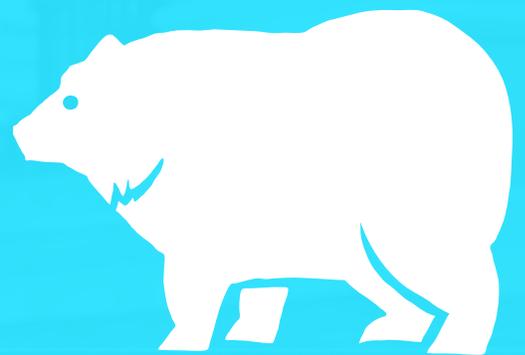
If the stock gets back above the S2 level of \$40.89 then it may have formed a bottom but on the way there will be tons of resistance at \$45.88-\$46.62 which is the S1 and 20DMA, respectively. To the downside, the next support level is \$34.39 which is the lower BB.



BULLISH OR BEARISH?



VS.



**MORE BULLISH
(POSITIVE)**

**MORE BEARISH
(NEGATIVE)**





OLLI CONCLUSION

OLLI is a company CUBE would avoid. For many of the same reasons we are short Shake Shack, OLLI is struggling to grow their current locations which is the actual true sign of a healthy company. CUBE also anticipates store closures from the virus which will impact their second best quarter historically and on top of this we expect the company to fall short on their new build outs as the global economy is virtually on a vacation for the foreseeable future.

While OLLI does have some decent margins compared to their competitors, it has been trending downwards and on top of this management is not defending their stock. Insiders have been unloading shares consistently over the last 12 months and were exercising their options and selling shares leading up to the earnings call in which they refused to give guidance.

We believe it's going to be another year of negative comp sales but actually think there is a good possibility the company also posts negative total sales. We wouldn't go short OLLI, as a 20x P/E isn't out of this world, but we don't see any catalysts in the next 3-6 months that would push shares higher other than the S&P500 tide lifting all boats higher.

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