

Ollie's

# 1Q Preview: Uniquely benefiting from the return of the “retail apocalypse”

Reiterate Rating: BUY | PO: 70.00 USD | Price: 57.69 USD

## Flyers and deals look compelling, promotions down YoY

Ollie's will report its 1Q (Feb-Apr) results on Wednesday, 6/7. We raise our 1Q EPS to \$0.47 on 3.0% comps (vs. Street \$0.47 on 2.6%) but lower our 2Q EPS to \$0.60 on 0.5% comps (vs. Street's \$0.61 on 1.4%). We visited an Ollie's store in New York at the end of April and were impressed by the quality of merchandise including brand name toys and Bed Bath merchandise. Ollie's flyers have been strong including a \$73mn Armstrong Flooring buyout in late January, a \$10mn Melissa & Doug buyout in March, a \$38mn Bed Bath buyout in April, and a \$6mn Nerf buyout in May. We've also seen food, candy, and HBA (healthy, beauty & accessories) featured prominently, which is unsurprising, as we expect strong demand in these categories. We were encouraged to see that OLLI did not run a 20% off gazebos and air conditioners in late April this year. But we are concerned that cooler weather did hurt comps in May.

## Favorable sourcing environment to last 18+ months

We hosted an expert call with a wholesaler last week and were encouraged to hear that closeout supply remains plentiful. The best availability is in apparel, seasonal goods, and toys, while food has been scarcer. The sourcing environment is expected to remain favorable for at least the next 18 months. Pricing remains high, but we expect even more products' prices will fall into Ollie's buying range over time. As expected, the return of the “retail apocalypse” has benefited closeout availability with notable closures including Bed Bath & Beyond, Christmas Tree Shops, Party City, and Tuesday Morning. And liquidity issues at Ollie's largest direct competitor, Big Lots, could lead to large sourcing opportunities next year. See our [expert call takeaways note \(5/31/23\)](#) and store closures on pg. 3-4.

## Expect meaningful gross margin improvement in 2023

We model gross margin below consensus in 1H23, but above in 2H23, as we expect transportation cost benefits to build through the year. We don't see high risk from mix or shrink and even see upside potential for FY gross margin given falling spot rates. We reiterate our Buy rating given the favorable sourcing environment and trade-down. Our price objective remains \$70 based on 25x '24 P/E. Investor sentiment remains negative given OLLI's low-income exposure and discretionary mix.

Estimates (Jan) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.36	1.62	2.59	2.81	3.06
GAAP EPS	2.43	1.64	2.59	2.81	3.06
EPS Change (YoY)	-25.3%	-31.4%	59.9%	8.5%	8.9%
Consensus EPS (Bloomberg)			2.55	2.87	NA
DPS	0	0	0	0	0
<b>Valuation (Jan)</b>					
P/E	24.4x	35.6x	22.3x	20.5x	18.9x
GAAP P/E	23.7x	35.2x	22.3x	20.5x	18.9x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	15.8x	22.4x	14.7x	13.7x	12.6x
Free Cash Flow Yield*	0.3%	1.8%	1.8%	1.9%	2.2%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

05 June 2023

## Equity

### Key Changes

(US\$)	Previous	Current
2024E Rev (m)	2,046.9	2,048.7
2025E Rev (m)	2,241.3	2,243.3
2026E Rev (m)	2,454.3	2,456.4

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## Stock Data

Price	57.69 USD
Price Objective	70.00 USD
Date Established	12-Apr-2023
Investment Opinion	C-1-9
52-Week Range	44.72 USD - 72.27 USD
Mrkt Val (mn) / Shares Out (mn)	3,574 USD / 61.9
Average Daily Value (mn)	52.91 USD
BofA Ticker / Exchange	OLLI / NAS
Bloomberg / Reuters	OLLI US / OLLI.OQ
ROE (2024E)	11.3%
Net Dbt to Eqty (Jan-2023A)	-15.4%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 05 June 2023 05:01AM EDT

# iQprofile<sup>SM</sup> Ollie's

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	8.9%	5.7%	8.5%	8.6%	8.6%
Return on Equity	11.7%	7.7%	11.3%	11.1%	10.9%
Operating Margin	11.6%	7.1%	10.3%	10.0%	9.9%
Free Cash Flow	10	63	64	66	80

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.3x	1.1x	1.2x	1.1x	1.1x
Asset Replacement Ratio	1.4x	1.8x	3.6x	3.3x	3.0x
Tax Rate	25.0%	23.6%	25.2%	25.0%	25.0%
Net Debt-to-Equity Ratio	-19.1%	-15.4%	-14.9%	-15.2%	-16.1%
Interest Cover	NM	NA	NA	NA	NA

## Income Statement Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,753	1,827	2,049	2,243	2,456
% Change	-3.1%	4.2%	12.1%	9.5%	9.5%
Gross Profit	681	656	803	884	968
% Change	-5.8%	-3.7%	22.4%	10.0%	9.5%
EBITDA	237	167	255	274	297
% Change	-22.6%	-29.4%	52.1%	7.6%	8.3%
Net Interest & Other Income	0	3	5	5	5
<b>Net Income (Adjusted)</b>	<b>153</b>	<b>102</b>	<b>161</b>	<b>173</b>	<b>186</b>
<b>% Change</b>	<b>-26.5%</b>	<b>-33.6%</b>	<b>58.3%</b>	<b>7.3%</b>	<b>7.8%</b>

## Free Cash Flow Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	153	102	161	173	186
Depreciation & Amortization	25	29	35	38	42
Change in Working Capital	(147)	(21)	(16)	(30)	(34)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	14	5	10	10	11
Capital Expenditure	(35)	(52)	(125)	(125)	(125)
<b>Free Cash Flow</b>	<b>10</b>	<b>63</b>	<b>64</b>	<b>66</b>	<b>80</b>
<b>% Change</b>	<b>-97.0%</b>	<b>525.6%</b>	<b>2.0%</b>	<b>3.5%</b>	<b>20.9%</b>

## Balance Sheet Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	247	211	222	248	288
Trade Receivables	1	2	3	3	3
Other Current Assets	478	541	573	620	673
Property, Plant & Equipment	147	176	266	352	435
Other Non-Current Assets	1,098	1,114	1,114	1,113	1,113
<b>Total Assets</b>	<b>1,972</b>	<b>2,044</b>	<b>2,176</b>	<b>2,336</b>	<b>2,513</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	263	259	274	291	310
Long-Term Debt	1	1	1	1	1
Other Non-Current Liabilities	420	422	422	422	422
<b>Total Liabilities</b>	<b>684</b>	<b>682</b>	<b>697</b>	<b>714</b>	<b>733</b>
<b>Total Equity</b>	<b>1,288</b>	<b>1,362</b>	<b>1,480</b>	<b>1,623</b>	<b>1,780</b>
<b>Total Equity &amp; Liabilities</b>	<b>1,972</b>	<b>2,044</b>	<b>2,176</b>	<b>2,336</b>	<b>2,513</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Sector

Retailing-Hardlines

## Company Description

Ollie's (OLLI) is a 400+ store discount retailer offering merchandise across a broad variety of categories including housewares, food, books, floor coverings, electronics and toys. Brand name and closeout merchandise sourced from overstocks, package changes, cancelled orders and other sources represents about 70% of sales. The company targets 1-2% comps, low double digit store growth, mid-teens sales growth and 20% net income/EPS growth with a long term target of 1,050+ stores.

## Investment Rationale

OLLI's opportunistic closeout sourcing model makes it a relative winner in environments where inventory supply outstrips demand. OLLI should also benefit from trade-down in an inflationary environment.

## Stock Data

Average Daily Volume

917,190

## Quarterly Earnings Estimates

	2023	2024
Q1	0.20A	0.47E
Q2	0.22A	0.60E
Q3	0.37A	0.38E
Q4	0.84A	1.15E

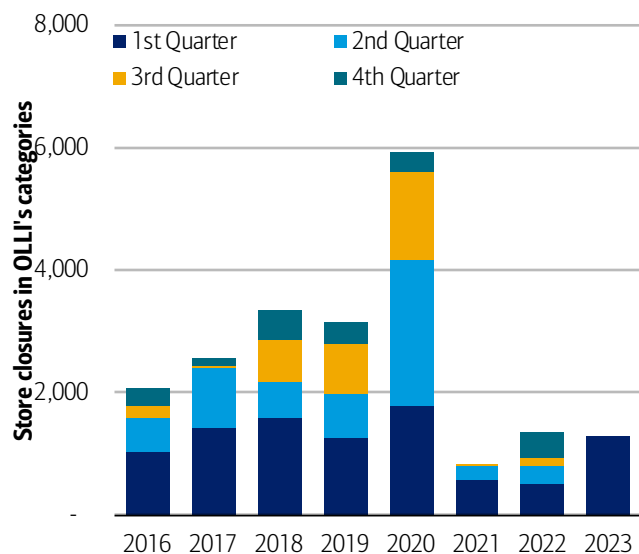
Total US sq. ft. closed in OLLI categories was up 366% YoY in 1Q23

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**Exhibit 2: US store closures in OLLI's categories**

Total US stores closed in OLLI categories was up 151% YoY in 1Q23

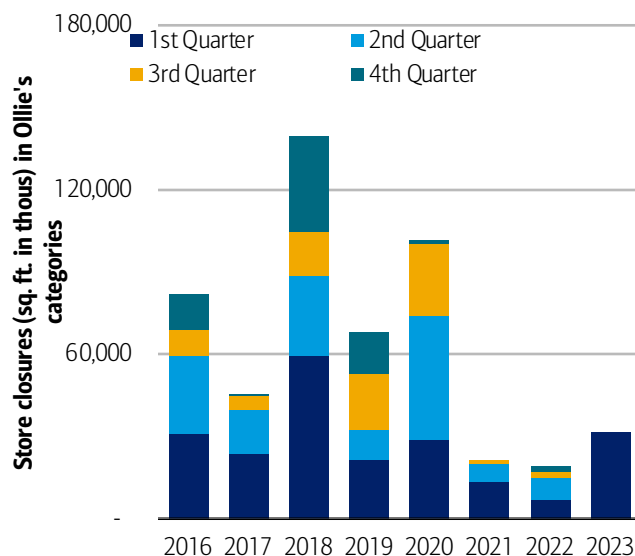


Source: BofA Global Research, company reports

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**Exhibit 3: US store closures in OLLI's categories (in sq. ft.)**

Total US sq. ft. closed in OLLI categories was up 366% YoY in 1Q23



Source: BofA Global Research, company reports

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## Price objective basis & risk

### Ollie's (OLLI)

Our price objective of \$70 is based on 25x our 2024 EPS estimate. Our target multiple is above the average for our hardline retail universe (currently 13x). OLLI has room to grow its store base and its opportunistic closeout sourcing model should be a competitive advantage in more difficult macroeconomic environments.

Upside risks to our PO are: 1) better-than-expected comps from sourcing opportunities, 2) upside from more favorable economic policies for low-income households, and 3) stronger pricing power and negotiating leverage due to greater scale.

Downside risks are: 1) inability to source enough quality closeout inventory, 2) slowing low income consumer demand, 3) pressure to margins from promotions, supply chain costs or wages and 4) inability to compete due to an underinvestment in supply chain and omnichannel capabilities.

## Analyst Certification

I, Jason Haas, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Boot Barn	BOOT	BOOT US	Jason Haas, CFA
	Driven Brands	DRVN	DRVN US	Elizabeth L Suzuki
	Five Below Inc.	FIVE	FIVE US	Jason Haas, CFA
	Floor and Decor Holdings, Inc.	FND	FND US	Elizabeth L Suzuki
	Genuine Parts	GPC	GPC US	Elizabeth L Suzuki
	Leslie's	LESL	LESL US	Elizabeth L Suzuki
	Lowe's Companies, Inc.	LOW	LOW US	Elizabeth L Suzuki
	Mattel	MAT	MAT US	Jason Haas, CFA
	Mister Car Wash	MCW	MCW US	Elizabeth L Suzuki
	Ollie's	OLLI	OLLI US	Jason Haas, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Elizabeth L Suzuki
	Petco	WOOF	WOOF US	Elizabeth L Suzuki
	PROG Holdings Inc	PRG	PRG US	Jason Haas, CFA
	Sonos, Inc.	SONO	SONO US	Jason Haas, CFA
	The Home Depot, Inc.	HD	HD US	Elizabeth L Suzuki
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
<b>NEUTRAL</b>				
	Advance Auto Parts, Inc.	AAP	AAP US	Elizabeth L Suzuki
	AutoZone Inc.	AZO	AZO US	Elizabeth L Suzuki
	Hasbro	HAS	HAS US	Jason Haas, CFA
<b>UNDERPERFORM</b>				
	Aaron's	AAN	AAN US	Jason Haas, CFA
	Best Buy Co., Inc.	BBY	BBY US	Elizabeth L Suzuki
	Big Lots, Inc	BIG	BIG US	Jason Haas, CFA
	JOANN	JOAN	JOAN US	Elizabeth L Suzuki
	Qurate	QRTEA	QRTEA US	Jason Haas, CFA
	Snap-on	SNA	SNA US	Elizabeth L Suzuki
	Whirlpool	WHR	WHR US	Elizabeth L Suzuki
	Williams-Sonoma	WSM	WSM US	Jason Haas, CFA



## **IQmethod<sup>SM</sup> Measures Definitions**

### **Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

### **Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

### **Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

### **Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

### **Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

### **Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

### **Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

### **Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

### **Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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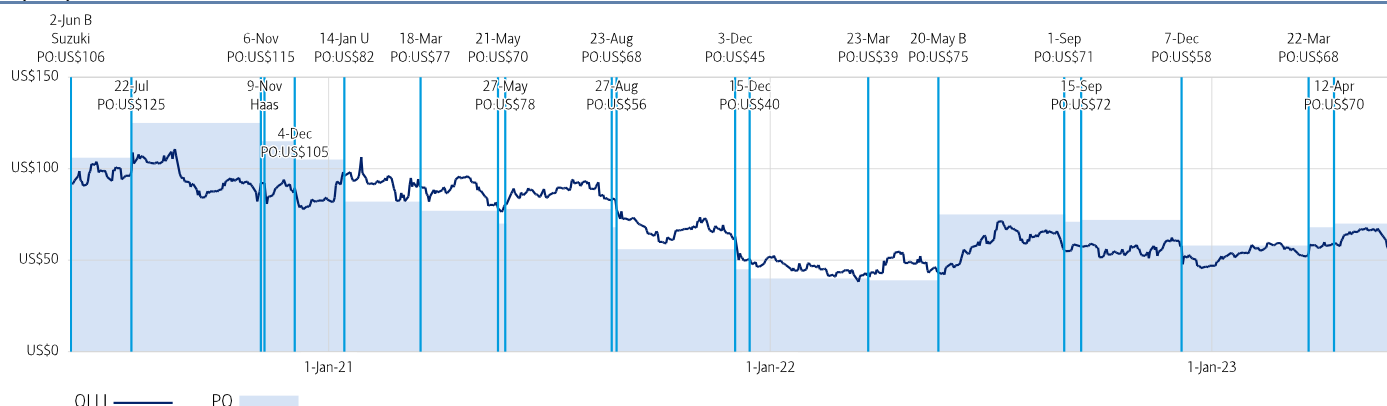
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### Ollie's (OLLI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Retailing Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	89	53.94%	Buy	37	41.57%
Hold	34	20.61%	Hold	14	41.18%
Sell	42	25.45%	Sell	23	54.76%

### Equity Investment Rating Distribution: Global Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	25.54%	Sell	389	46.87%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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