Ollie's Bargain Outlet "Good Stuff Cheap"

Alpha Challenge
Kenan–Flagler Business School
The University of North Carolina

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Background About Ollie's

Market Value		
Stock Price as of 11/20/20	$	92.00
Shares Outstanding (m)		65,375
Market Cap (m)	$	6,080
Net Debt	$	210
Enterprise Value	$	7,776
Financial Data		
Revenue (m)	$	1,408
EBITDA (m)	$	202
EPS LTM	$	2.14
Gross Margin (2Q20)		38%
EBITDA Margin		14%
Multiples		
NTM P/E		31x
NTM EV/EBITDA		44x
NTM EV/Sales		4x

Ollie's Bargain Outlet (OLLI)

Current Price: $92
1-Year Price target: $135
Upside: 48%

Investment Thesis

1. **OLLI's competitive moat will continue to expand as competition pivots to compete with exclusively online retailers**

1. **E-commerce and continued retail disruption continue to be favorable to OLLI**

1. **Superior unit economics will drive earnings higher than consensus expects**

Product Lifecycle

Industry:

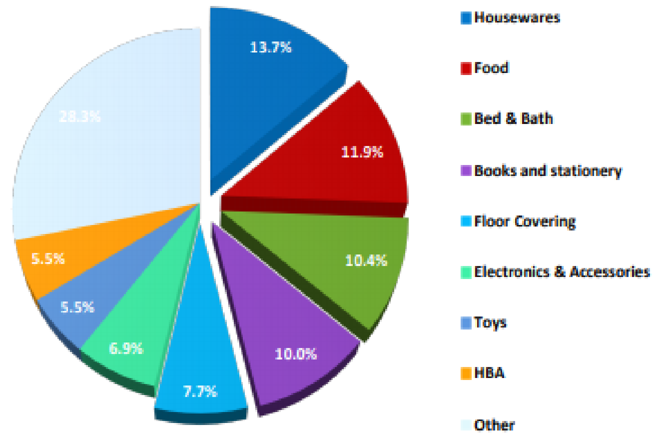
- $65B in the United States, growing 6.8%
- **Segment Competition:** BIG, WMT, TGT
- **Target Customer Competition:** DG, DLTR

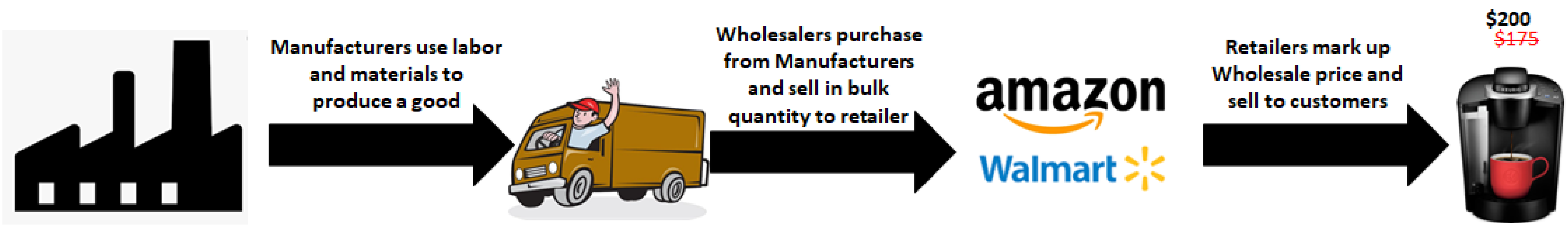
Store Level:

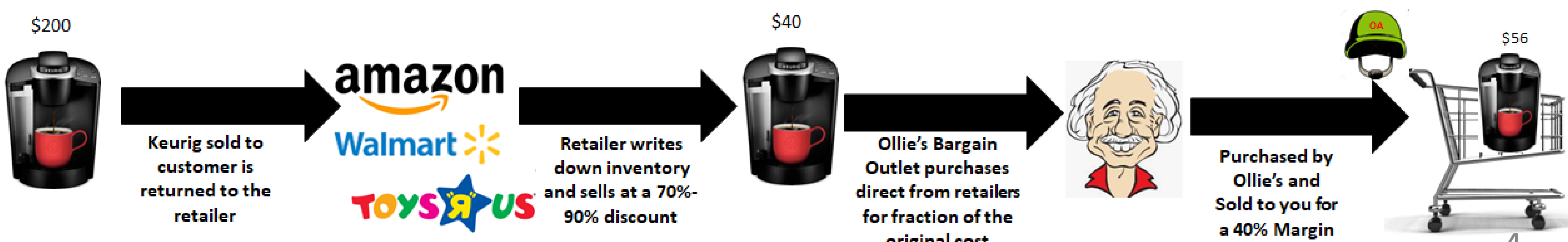
- **Target Customers: 118 Million Americans**
- **Value Proposition:** Low prices, treasure hunt experience and brand name goods in non-bulk quantities
- **~360 stores across Eastern US, growing 15%/year**
- **<u>2 year payback</u> period for new stores**

Broad Selection of "Good Stuff Cheap"

Net sales by merchandise category for FY 2017



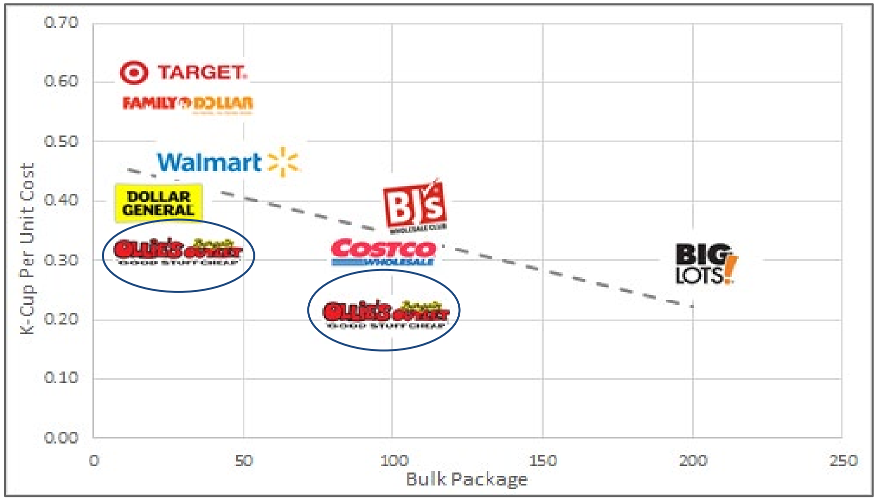




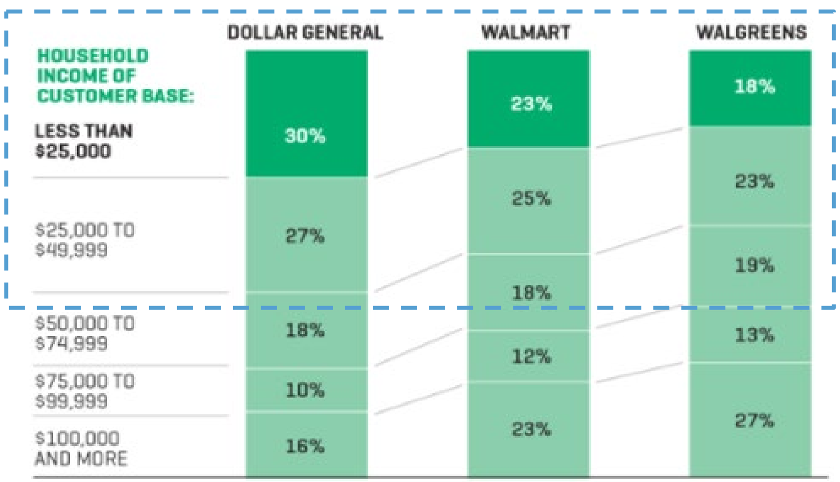
Sources: JP Morgan, Company Filings

Thesis 1: Competitive Moat Expansion

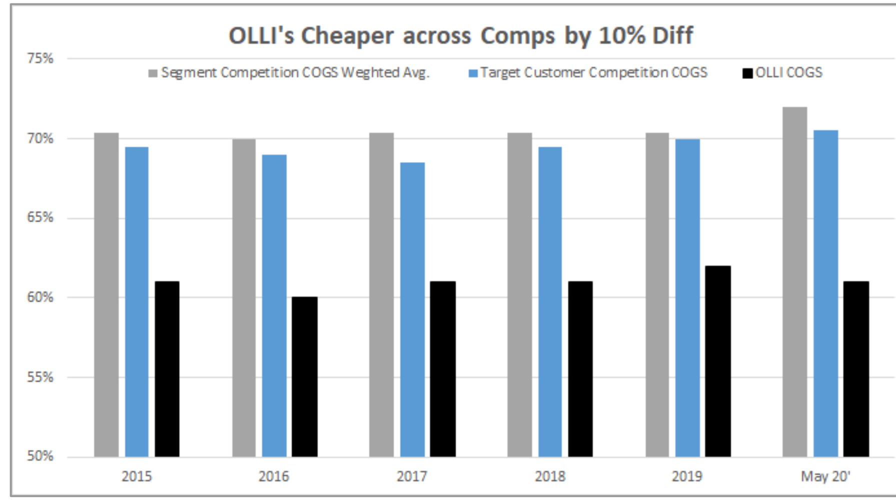
OLLI's fills a neglected segment of the market, operating at lower **prices** and **quantities**



Competitors shift to **omni-channel** raise costs – abandoning **7%-10% current customer** demographic



Maintains consistently **inexpensive inventory**—10% lower than its "Segment Model" and "Target Customer" Comps



OLLI fulfills a bargain basement, **treasure hunt** shopping experience, difficult to replicate through e-commerce platforms—similar to **TJX and ROSS**

Source: Company Filings, Fortune.com, Target.com, Familydollar.com, Walmart.com, Dollar General.com, BJ's.com, Costco.com, Biglots.com, Ollie's Flyer

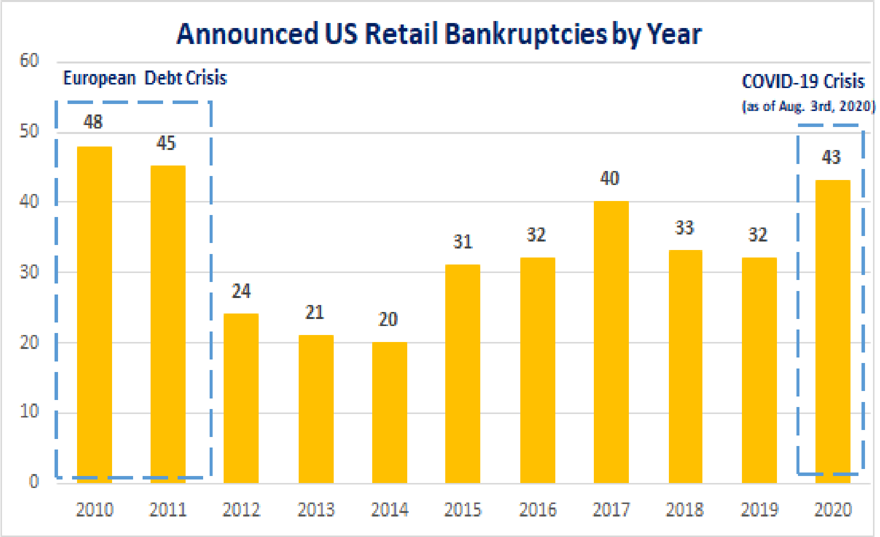
Thesis 2: Secular Trends in Retail

TAILWIND: Secular trend toward e-commerce

- Brick-and-mortar limits customer price shopping visibility—incentive for secondary brick and mortar channel for brands
- Returned items represent a 70-90% loss per item to a store's balance sheet, incentivizing online retailers to liquidate
- Trend likely to continue as a result of a COVID holiday season

TAILWIND: Benefits from retail contraction

- Bankruptcies allow OLLI's to acquire inventory and real estate at a deep discount
- Broad inventory makeup allows OLLI's to capitalize on any liquidations or excess
- Sears and Toys "R" Us foreshadow OLLI's reaction to future mass liquidations

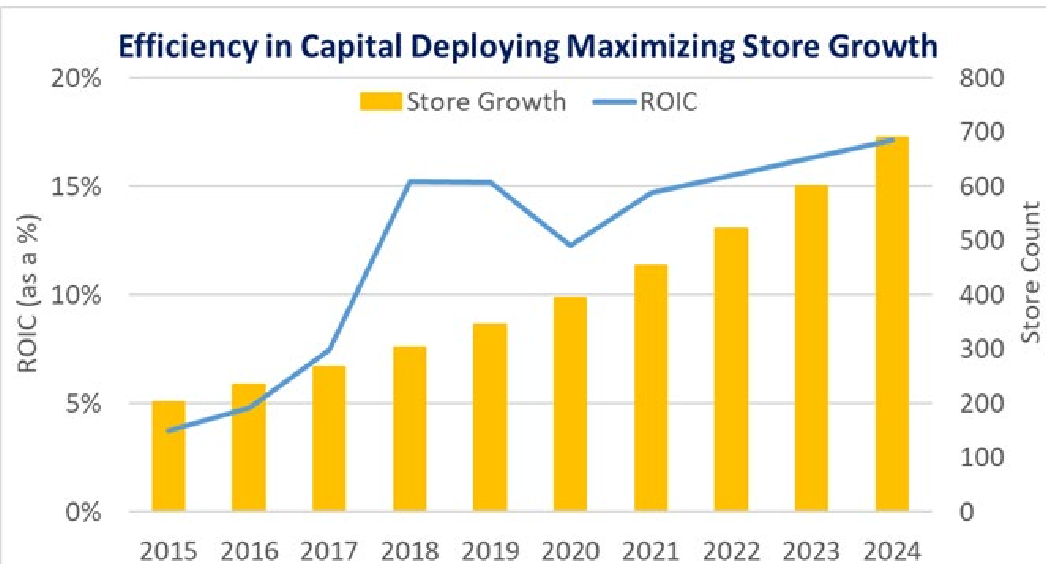


Source: cgtn.com

Thesis 3: Exceptional Unit Economics

Market Discounts Growing Unit Economics

- Unit economics allow OLLI to internally fund growth—resulting in **8% growth in ROIC** since FY17
- Consensus fails to account for adding growth potential from next distribution center in TX
- Store growth will continue at 14% for next five years totaling **107 stores** opened vs. consensus 96



Year 1 Return Analysis

(dollars in thousands)

	New Unit Model
Sales	~$3,900
Four-Wall EBITDA %[1]	~15%
Net Cash Investment[2]	~$1,000
Cash-on-Cash Return[3]	*59%*

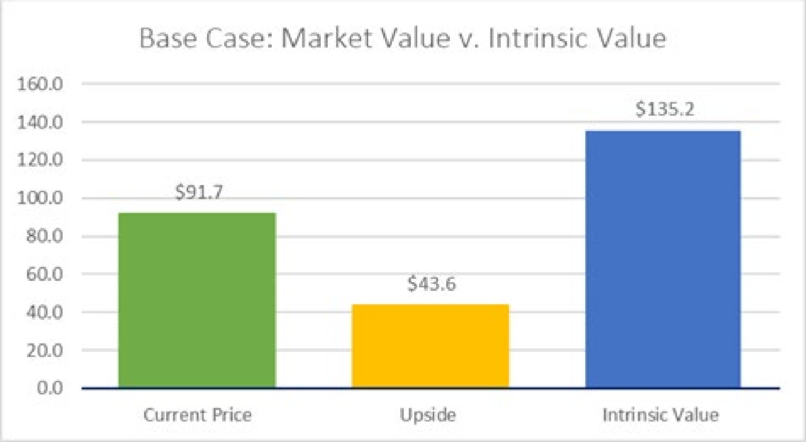
~2 year payback period

Source: Investor Presentation

Valuation

Terminal Value	
Terminal Growth Rate	3.0%
Terminal Value	7,881
Sum of FCF	1,021
Enterprise Value	8,901
Cash	305
Debt	375
Net Debt	70
Minority Interest	0
Implied Market Cap	8,832
Share Count	65.3
Target Price	**135.2**
Implied Upside	**47.5%**

Multiples Method	
2024E EBITDA	647
PV of 2024 EBITDA	450
Target Multiple	20.0
Implied Enterprise Value	9,010
Cash	305
Total Debt	375
Net Debt	70
Preferred Equity	0
Minority Interest	0
Implied Market Cap	8,940
Share Outstanding	65.3
Target Price	**136.9**
Implied Upside	**49.3%**



	TJMaxx	Ross Stores	Burlington	Average
BF P/E	27.5	28.6	43.5	**33.2**
BF EV/EBITDA	14.9	16.3	22.7	**19.5**

*2-Year Blended Forward in Bloomberg

Base Case:

- 1- Year Price Target: $137 (+ 49%)
- EV/EBITDA of 20x in line with similar off-price retailers

Bear Case:

- 1-Year Price Target: $60
- Downside: -35%

Bull Case:

- 1-Year Price Target: $210
- Upside: 130%

Risks To Valuation

Risks to Valuation

1

Medium - Failure to continue to grow store base effectively

- Capital required to expand business presence
- Deep knowledge of inventory market and real estate markets required to maintain a competitive advantage

Mitigation

Ollie's management has a proven track record of successful store growth and internally restricting growth to ensure proper human capital in every store

2

Low - Competitors Adjusting Model To Target Same Customers

- Ollie's higher than average margins and growth in secondary inventory market may attract new entrants
- Existing competitors may price down to target lower income demographic that Ollie's dominates

Mitigation

Given Ollie's competitive moat and long-standing reputation, both existing competitors and new entrants would struggle significantly to sustainably undercut Ollie's on brand name goods

3

Low - Inventory Issue

- Fear the company will struggle to maintain high-quality inventory mix as the firm scales
- Outstanding shareholder lawsuit against the company for inventory trouble in 2019

Mitigation

Ollie's is a tiny player in secondary inventory market with growing purchasing power, meaning there is significant opportunity to leverage scale and buying team to buy necessary inventory. Additionally, the company has never written down inventory indicating healthy inventory turnover

Appendix

Appendix 1: One Year Price Chart

Source: FactSet

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Appendix 2: Bear/Bull/Base Scenarios

Bull Case

Implied Upside: +130%

- **Probability: 35%**
- Assumptions
- SG&A leverage of 7% over 5-years
- Greater supply chain expansion and efficiency through new distribution center
- Effective Marketing driving greater customer acquisition in new markets

Base Case

Implied Upside: +48%

- **Probability: 50%**
- Assumptions
- SG&A leverage of 4% over 5-years
- Continued Expansion of Ollie's Army Membership Program
- Increased market share through new store sales

Bear Case

Implied Upside: -35%

- **Probability: 15%**
- Assumptions
- Increasing minimum wage
- Higher than expected market saturation in back-filled regions
- Slower adoption in new store markets

Appendix 3: Why is the Market Wrong?

The Market's View	Our Thesis
• OLLI's will struggle to achieve management's goal of 1,050 national stores due to competition	• OLLI's unique business model insulates them from competitors, allowing them to grow share
• OLLI's will struggle to keep high-margin products in the store as they scale	• Growing national access to deal flow and expansion of buying team will allow the firm to find savvy deals
• If firms don't adapt with E-commerce, they will not succeed	• OLLI's grows with e-commerce firms in a mutually beneficial relationship
• Firm has chronically underinvested in an inventory management system which will lead to large write-downs	• OLLI's state-of-the-art distribution centers utilize best-in-class EMS software. Firm has also never had to write down inventory despite this concern for 3 years.

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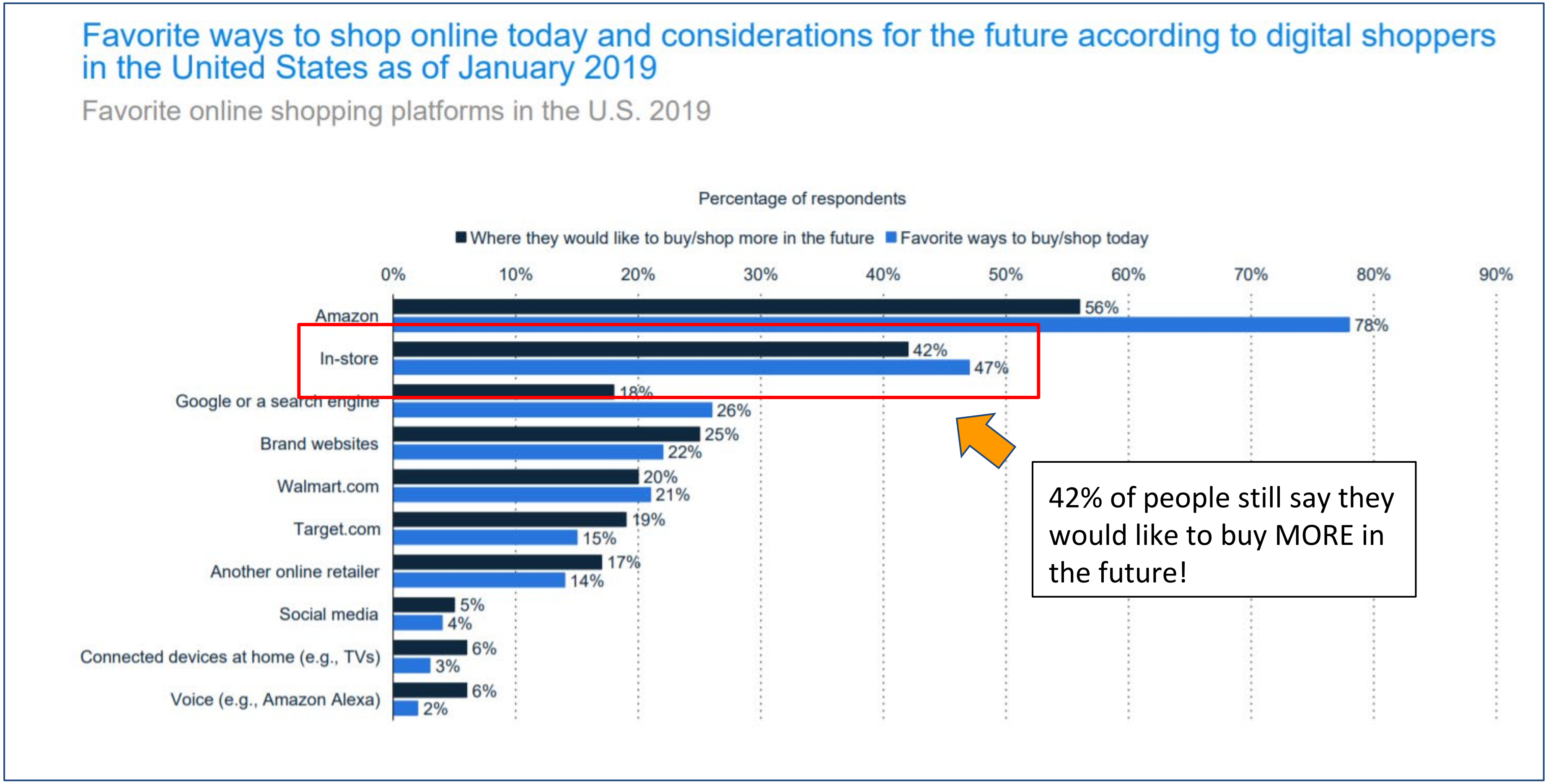
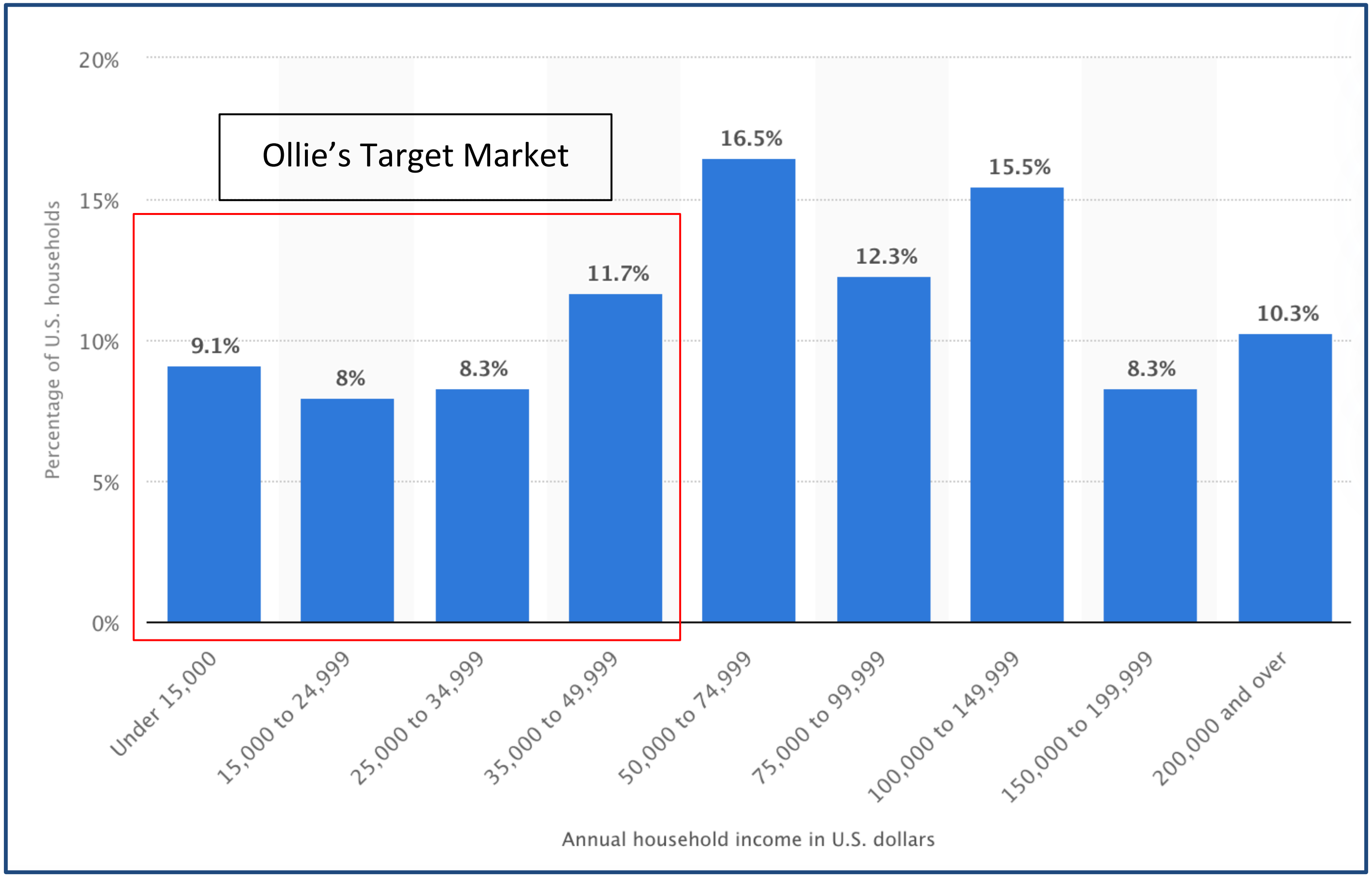
Appendix 4: Brick-and-Mortar is NOT Dead



Source: Statista

Appendix 5: Massive Target Demographic



Source: Statista

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Appendix 6: TJX Case Study

TJX Companies and its key competitor Ross Stores have nearly always held a valuation premium in the sector due to the nature of their business and their long-term profitability.
Compared to other retailers that have been beaten up pretty regularly on Amazon news, TJX and ROST have held up, and it's because it's difficult to poke a hole in the companies' business model.

- TJX is able to resist investor fears of the Amazon effect because a large part of its business model relies on its physical locations
- Its customers want to dig through the merchandise like a **treasure hunt** to find the best deals, and the clothes are inexpensive without sacrificing quality.

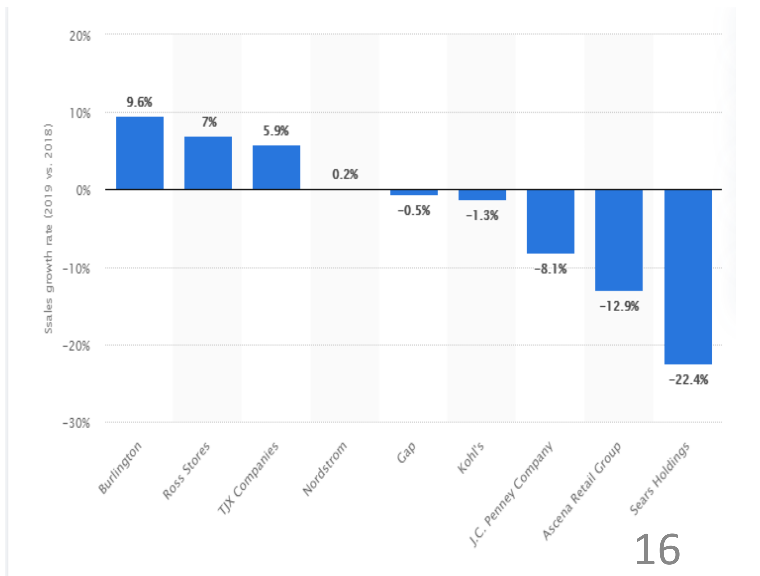
CONSUMER BEHAVIOR

Share of U.S. women who like or love TJ Maxx
48%

Share of U.S. women who would consider buying clothes, footwear, or accessories from TJ Maxx
65%

Share of U.S. Millennials who have shopped at Marshalls in the past 12 months
38%

2019 Sales Growth



Source: IBIS World and Seeking Alpha

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Appendix 7: Projected Income Statement

*Fiscal Year ends January

	Actuals					Estimates				
Income Statement (in $M)	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**
Sales	762	890	1,077	1,241	1,408	1,696	1,969	2,285	2,653	3,080
YoY Growth (%)	19%	17%	21%	15%	13%	20%	16%	16%	16%	16%
Opex (incl. D&A)	467	538	655	755	867	1,017	1,181	1,371	1,592	1,848
Depreciation & Amortization	9	11	12	14	18	34	39	46	53	62
YoY Growth (%)	19%	15%	22%	15%	15%	17%	16%	16%	16%	16%
Gross Income	296	352	422	486	541	678	787	914	1,061	1,232
YoY Growth (%)	0	0	0	0	0	0	0	0	0	0
Margin (%)	0	0	0	0	0	0	0	0	0	0
SG&A Expense	216	250	278	313	356	424	472	526	584	647
Operating Income	80	102	144	173	185	254	315	388	478	585
YoY Growth (%)	26%	28%	41%	21%	7%	38%	24%	23%	23%	23%
Margin (%)	10%	11%	13%	14%	13%	15%	16%	17%	18%	19%
Nonoperating Income	0	0	-8	-11	-12	-8	-10	-11	-13	-15
Interest Income	15	6	4	1	0	0	0	0	0	0
Pretax Income	57	96	130	161	173	246	305	377	464	570
YoY Growth (%)	32%	68%	36%	23%	8%	42%	24%	24%	23%	23%
Margin (%)	8%	11%	12%	13%	12%	15%	16%	17%	18%	19%
Income Taxes	22	36	3	26	32	52	64	79	97	120
Net Income	36	60	128	135	141	194	241	298	367	450
YoY Growth (%)	33%	67%	113%	6%	5%	38%	24%	24%	23%	23%
Margin (%)	5%	7%	12%	11%	10%	11%	12%	13%	14%	15%
EPS	**0.73**	**0.96**	**1.97**	**2.05**	**2.14**	**2.97**	**3.69**	**4.56**	**5.62**	**6.89**
Total Shares Outstanding	59	61	62	63	63	65	65	65	65	65
Consensus Earnings						3.0	3.0	3.0	3.5	
EPS Growth	1	0	1	0	0	0	0	0	0	0
EBITDA	**89**	**113**	**156**	**188**	**202**	**288**	**354**	**434**	**531**	**647**
YoY Growth (%)	24%	27%	38%	20%	8%	224%	23%	23%	22%	22%
Margin (%)	12%	13%	14%	15%	14%	15%	18%	19%	20%	21%

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Appendix 8: Projected Balance Sheet

*Fiscal Year ends January

	Actuals					Estimates				
Balance Statement (in $M)	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**
Cash & ST Investments	30	99	39	52	90	108	126	146	169	197
Short-Term Receivables	0	0	1	1	3	1	1	2	2	2
Inventories	191	210	255	296	335	376	437	507	589	683
Other Current Assets	3	4	8	10	6	2	3	3	3	4
Total Current Assets	**224**	**313**	**304**	**358**	**434**	**488**	**567**	**658**	**763**	**886**
Growth (%)	13%	40%	-3%	18%	21%	13%	16%	16%	16%	16%
Net Property, Plant & Equipment	39	46	55	119	485	545	413	496	551	642
Intangible Assets	678	678	677	677	675	676	785	911	1,057	1,227
Total Assets	**956**	**1,050**	**1,046**	**1,172**	**1,695**	**1,708**	**1,764**	**2,064**	**2,372**	**2,756**
Growth (%)	**4%**	**10%**	**0%**	**12%**	**45%**	**79%**	**3%**	**17%**	**15%**	**16%**
Liabilities & Shareholders' Equity										
ST Debt & Curr. Portion LT Debt	5.0	5.1	10.2	0.2	53.8	64.8	75.2	87.3	101.4	117.7
Accounts Payable	52.1	50.4	74.2	77.4	63.2	98.0	113.8	132.1	153.3	178.0
Income Tax Payable	6.4	7.1	6.0	7.4	3.9	4.7	5.5	6.3	7.4	8.5
Other Current Liabilities	33.3	42.2	46.3	65.9	56.7	68.3	79.3	92.1	106.9	124.1
Total Current Liabilities	**96.8**	**104.8**	**136.7**	**151.0**	**177.7**	**235.8**	**273.8**	**317.8**	**369.0**	**428.3**
Growth (%)	7%	8%	30%	10%	18%	144%	16%	16%	16%	16%
Long-Term Debt	193	189	39	0	300	362	420	487	566	657
Other Liabilities (excl. Deferred Income)	5	5	7	9	0	0	0	0	0	0
Total Liabilities	**394**	**399**	**250**	**230**	**636**	**597**	**694**	**805**	**935**	**1,085**
Growth (%)	**21%**	**1%**	**-37%**	**-8%**	**-177%**	**52%**	**16%**	**16%**	**16%**	**16%**
Common Equity	318	337	317	154	192	192	192	192	192	192
Retained Earnings	26	85	213	342	484	678	919	1,217	1,584	2,034
Treasury Stock	0	0	0	0	-40	241	-40	-150	-338	-555
Total Shareholders' Equity	562	651	796	943	1,059	1,111	1,071	1,259	1,437	1,671
Growth (%)	35%	16%	22%	18%	12%	98%	-4%	18%	14%	16%
Total Shareholders' Equity/Total Assets	59%	62%	76%	80%	62%	65%	61%	61%	61%	61%
Total Liabilities & Shareholders' Equity	**956**	**1,050**	**1,046**	**1,172**	**1,695**	**1,708**	**1,764**	**2,064**	**2,372**	**2,756**
Growth (%)	**4%**	**10%**	**0%**	**12%**	**45%**	**79%**	**3%**	**17%**	**15%**	**16%**

Appendix 9: Projected Cash Flow Statement

*Fiscal Year ends January

	Actuals					Estimates				
Cash Flow Statement (in millions)	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**
Operating Activities										
Net Income / Starting Line	36	60	128	135	141	60	241	298	367	450
Plus: Depreciation, Depletion & Amortization	9	11	12	14	18	11	39	46	53	62
Less: Change in Working Capital	-12	-4	-24	-31	-65	-5	-45	-52	-61	-70
Net Operating Cash Flow	**46**	**67**	**96**	**126**	**105**	**66**	**235**	**291**	**359**	**441**
Growth (%)		0.5	0.4	0.3	-0.2	-37%	258%	24%	23%	23%
Investing Activities										
Capital Expenditures	-14	-16	-19	-74	-77	-75	-125	-106	-148	-169
Sale of Fixed Assets	0	0	0	0	43	0	0	0	0	0
Net Investing Cash Flow	**-14**	**-16**	**-19**	**-74**	**-34**	**-75**	**-125**	**-106**	**-148**	**-169**
Growth (%)		-2%	-15%	-17%	-286%	121%	66%	-15%	39%	14%
Financing Activities										
Cash Dividends Paid	-49	0	0	0	0	0	0	0	0	0.0
Sale of Common & Preferred Stock	152	13	10	10	9	0	0	0	0	0.0
Issuance/Reduction of Debt, Net	-127	-5	-146	-49	0	61	58	68	78	91.0
Net Financing Cash Flow	**-23**	**18**	**-136**	**-40**	**-33**	**61**	**58**	**68**	**78**	**91.0**
Net Change in Cash	8	68	-59	13	38	52	169	253	290	363
Free Cash Flow	**32**	**51**	**77**	**52**	**28**	**-10**	**111**	**185**	**211**	**272**
Growth (%)	79%	60%	51%	-32%	-46%	-134%	-1255%	67%	14%	29%
Unlevered Free Cash Flow (p/s)	**0.6**	**1.0**	**1.5**	**1.0**	**4.0**	**-0.2**	**2.2**	**3.7**	**4.2**	**5.4**
Free Cash Flow Yield (%)	8%	3%	2%	6%	4%	0%	5%	8%	9%	12%
Total Share Outstanding (in MM)	59	61	62	63	63	65	65	65	65	65

Appendix 10: Revenue Build

Ollie's Bargain Outlet Holdings Inc	Actuals					Estimates				
(in MM)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	2020E	2021E	2022E	2023E	2024E
Total Revenue	**762**	**890**	**1,077**	**1,241**	**1,408**	**1,696**	**1,969**	**2,285**	**2,653**	**3,080**
Total Revenue Growth	**19%**	**17%**	**21%**	**15%**	**13%**	**20%**	**16%**	**16%**	**16%**	**16%**
Same Store Sales - Total (%)	6.0%	3.2%	3.3%	4.2%	4.2%					
Average Sales per Store	4.01	4.05	4.25	4.33	4.23	4.29	4.35	4.41	4.47	4.54
Sales per Store Growth	5.0%	1.1%	4.9%	1.9%	-2.2%	1.4%	1.4%	1.4%	1.4%	1.4%
Store Growth	15.3%	15.3%	14.5%	13.1%	13.9%	14.5%	14.5%	14.5%	14.5%	14.5%
Store Information							0.0%			
Average Store Size (actual)	33	33	33	33	33	33	33	33	33	33
# Beginning Stores (actual)	176	203	234	268	303	345	395	452	518	593
# Ending Stores (actual)	203	234	268	303	345	395	452	518	593	679
# Net Additions (actual)	27	31	34	35	42	50	57	66	75	86

Appendix 11: Potential Catalysts

1. "Mega-Deals" ($5M-10M) on the horizon in the beginning of 2021 due to Covid and start of new inventory cycle
2. Covid-19 vaccine getting more people out and shopping brick-and-mortar
3. Next round of stimulus benefiting Ollie's core customers similar to CARES Act
4. Short Squeeze: 18% of shares sold short

Appendix 12: Notable Quotes

Quotes/Interesting Lines

A KeyBanc analyst tested this claim across 32 items and discovered that prices were on average 42% cheaper than at Amazon -- a major value-add for a brick-and-mortar retailer in the modern age.

“We are – we're very excited to have the new customer that we attracted. And we believe with all the tools we have on the onboarding of the army, the enlistment bonuses and the communication we offer to the consumer, I think we'll be able to hold on to a lot of those customers and have them on a long-term basis in the army.” - CEO John Swygert

“And I don't want to get people confused because we have plenty of large deals each and every day. But a mega deal may be a deal that's, call it, in excess of $5 million or $10 million. And we're going to hold in our distribution centers and maybe let them go out to the stores over time.” -CEO John Swygert

“They are awesome and have great prices. Never had been to one, and I was like a kid in a candy store” -customer review

“Loved this store. We will be back. Bargains bargains bargains” -facebook review

Source: Facebook, company website, and KeyBanc

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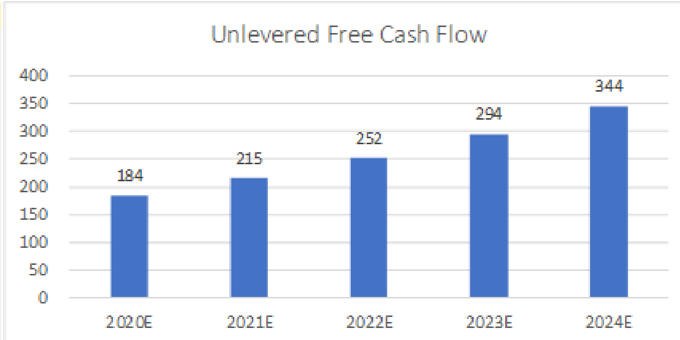
Appendix 13: DCF

Discounted Cash Flow Analysis	
Current Price (11.21.20)	91.7
Assumptions	
Tax Rate	28.0%
Cost of Equity	8.0%
TV Growth Rate	3.0%
EV/EBITDA Multiple	16.9x
Enterprise Value	6,930
Shares O/S (in MM)	65.3
Cash LTM 8/1/2020	305
Debt LTM 8/1/2020	375
Short Interest	15.8%
Float	56.73
Beta	1.05
Market Cap	5,833
WACC	7.5%

All numbers stated in MM unless stated otherwise



DCF: Scenario Analysis	Best Case	Base Case	Bear Case
Revenue Growth	25.0%	16.9%	5.0%
COGS Margin	54.0%	56.0%	60.0%
SG&A Margin	25.0%	25.0%	25.0%
Op. Profit Growth	21.0%	19.0%	15.0%
WACC	7.5%	7.5%	7.5%
Share Outstanding	65.3	65.3	65.3
Equity p/s	**210.9**	**135.2**	**59.6**
Up/Downside	**130.1%**	**47.5%**	**-35.0%**

1 2 3 4 5

	2019A	2020E	2021E	2022E	2023E	2024E
Time Periods		1	2	3	4	5
Revenue	1,408	1,647	1,926	2,252	2,634	3,080
Cost of Goods Sold	867	922	1,078	1,261	1,475	1,725
Gross Profit	541	725	847	991	1,159	1,355
SG&A Expense	356	412	481	563	658	770
EBIT	185	313	366	428	500	585
Less: Cash Taxes	(32)	(88)	(102)	(120)	(140)	(164)
Plus: D&A	18	33	39	45	53	62
Less: Capex	(77)	(33)	(39)	(45)	(53)	(62)
Less: Changes in NWC	(65)	(41)	(48)	(56)	(66)	(77)
Unlevered FCF	29	184	215	252	294	344
Discounted FCF						
∑PV of UFCF (2021E-24E)	1,021	171	186	203	220	240
2025E FCF *(1+g)	355					
TV of UFCF 2025E	7,881					
Total Enterprise Value	8,901					

Assumptions (2021E-2024E)

Select a Scenario	**Base Case**
Revenue Growth	16.9%
COGS Margin	56.0%
SG&A Margin	25.0%
Op. Profit Growth	19.0%
WACC	7.5%
Share Outstanding	65.3
Depreciation	2.0%
Capex (% of Sales)	-2.0%
Change in NWC (% of Sales)	-2.5%

Intrinsic Value		**Market Value**	
Enterprise Value	8,901	Market Cap	8,832
Plus: Cash + Cash Sec.	305	Plus: Debt	375
Less: LT + ST Debt	375	Plus:Minority Interest	0
Less: Preferred Equity	0	Less: Preferred Equity	0
Less: Minority Interst	0	Less:Cash + Cash Sec.	305
Equity Value	8,832	Enterprise Value	8,901

Market v. Intrinsic Value		
Current Price	$	91.7
Upside	$	43.6
Intrinsic Value	$	135.2

Equity Value (p/s) $ 135

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Appendix 14: Competitive Advantages of Ollie’s

Ollie’s competitive advantage boils down to price and brick-and-mortar business model

Three main factors contribute to this advantage:

1. Not keeping consistent inventory allows them to hold lower inventory levels and have higher margins
2. No online sales gives brands the confidence to sell to Ollie’s at lower rates than many comps (Big Lots and Overstock.com for example)
3. Ollie’s senior buyers have 100 years experience between the 5 of them. This results in extensive networks with manufactures giving Ollie’s direct access to buy from manufacturers directly
    a. They DON’T have to buy through an auction house for inventory like private and small comps (any new startups wouldn’t have this access)

Appendix 15: Research Steps Taken

1. Met with sell-side analyst covering OLLI
2. Met with buy-side retail analyst
3. Met with short-seller
4. Visited Ollie's Store
5. Called 15 store managers
6. Emailed IR team
7. Met with consumer portfolio manager
8. Reached out to merchandising team
9. Applied for a job to get closer to the merchandising team

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Appendix 16: Management and Board

Name	Position	Age	Company Tenure (Yrs)
John W. Swygert	President, CEO, COO, Director & EVP	51	16
Jay Stasz	Secretary, CFO, Chief Accounting Officer & SVP	53	5
Robert Bertram	Vice President & General Counsel	51	6
Howard Freedman, MBA	Vice President-Merchandising	68	20
Kevin McLain	Senior Vice President-Merchandising	54	6

John Swygert, CEO

Company features a veteran management team with a long-term focus combined with new board members for strong governance, which creates compelling opportunity for shareholder returns.

Name	Position	Age	Board Tenure (Yrs)
John W. Swygert	President, CEO, COO, Director & EVP	51	<1
Alissa M. Ahlman	Independent Director	48	<1
Stephen W. White	Independent Director	65	4
Robert N. Fisch	Independent Director	70	5
Thomas T. Hendrickson, CPA	Independent Director	65	5
Stanley Fleishman, MBA	Independent Director	68	7
Richard F. Zannino, MBA	Independent Director	61	8

Source: FactSet

Appendix 17: Merchandising Team

Senior team with more than 100 years experience leading to deep industry relationships and a strong competitive advantage

Kevin McLain
kmclain@ollies.us
Senior Vice President General Merchandising
With Ollie's since 2014

Jeff Anderson
janderson@ollies.us
Vice President Divisional Merchandise Manager
With Ollie's since 1994

Shane Thornton
sthornton@ollies.us
Vice President of Merchandising
Automotive and Electronics
With Ollie's since 2011

Scott Feinstein
sfeinstein@ollies.us
Vice President of Merchandising
Toys
With Ollie's since 1997

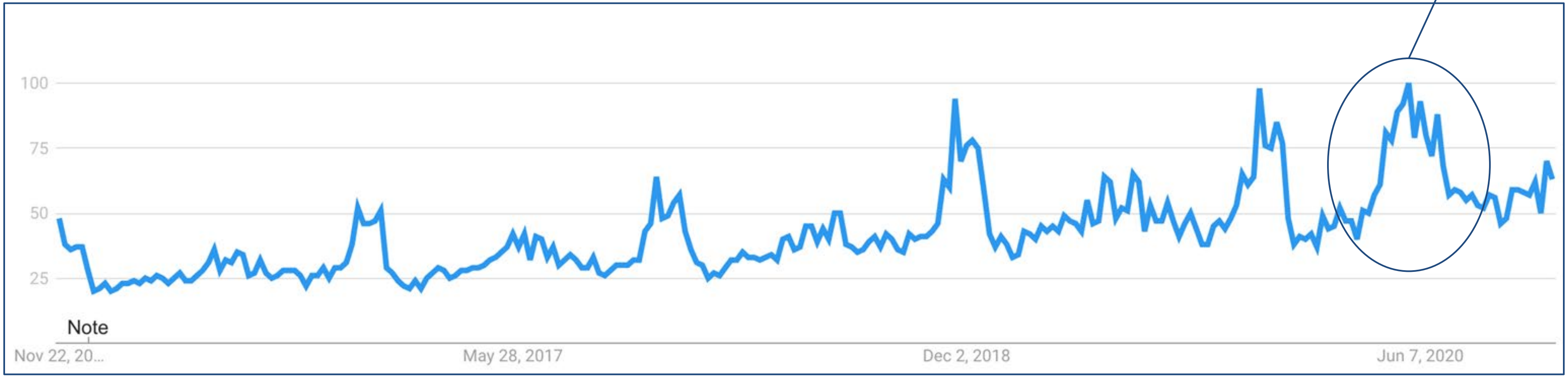
Timothy Maglowski
tmaglowski@ollies.us
Divisional Merchandise Manager
Housewares
With Ollie's since 2017

Source: Company website

Appendix 18: Searches for Ollie's Growing

Google Searches For Ollie's Over The Past 5 Years

Covid surge in interest



Source: Google Trends

OLLIE'S Bargain OUTLET®

"GOOD STUFF CHEAP"

ICR Conference
January 2019

Safe Harbor Statement

This presentation does not constitute an offer or invitation for the sale or purchase of securities and has been prepared solely for informational purposes. This presentation contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties. All statements other than statements of historical fact included in this presentation are forward-looking statements. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as "aim," "anticipate," "estimate," "expect," "project," "plan," "intend," "believe," "will," "may," "could," "continue," and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events but not all forward-looking statements contain these identifying words. These forward-looking statements are based on assumptions regarding our business, the economy, and other future conditions that we have made in light of our industry experience and on our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. As you consider this presentation, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties (some of which are beyond our control) and assumptions. These risks, uncertainties and assumptions include, but are not limited to, the following: regional, national or global political, economic, business, competitive, market and regulatory conditions including pending tax legislation and the following: our failure to adequately procure and manage our inventory or anticipate consumer demand; changes in consumer confidence and spending; risks associated with intense competition; our failure to open new profitable stores, or successfully enter new markets, on a timely basis or at all; our failure to hire and retain key personnel and other qualified personnel; our inability to obtain favorable lease terms for our properties; the loss of, or disruption in the operations of, our centralized distribution centers; fluctuations in comparable store sales and results of operations, including on a quarterly basis; risks associated with our lack of operations in the growing online retail marketplace; our inability to successfully implement our marketing, advertising and promotional efforts; the seasonal nature of our business; the risks associated with doing business with international manufacturers; risks associated with the timely and effective deployment and protection of computer and electronic systems; changes in government regulations, procedures and requirements; and our ability to service our indebtedness and to comply with our financial covenants together with the other factors set forth under "Risk Factors" in our filings with the United States Securities and Exchange Commission ("SEC"). Any forward-looking statement made by us in this press release speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. Ollie's undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law. You are advised, however, to consult any further disclosures we make on related subjects in our public announcements and SEC filings.

Because of these factors, we caution that you should not place undue reliance on any of our forward-looking statements. New risks and uncertainties arise from time to time, and it is impossible for us to predict those events or how they may affect us. Furthermore, any forward-looking statement speaks only as of the date on which it is made.

Market data and industry information used throughout this presentation are based on management's knowledge of the industry and the good faith estimates of management. We also relied, to the extent available, upon management's review of independent industry surveys, forecasts and publications, other publicly available information prepared by a number of third party sources. All of the market data and industry information used in this presentation involves a number of assumptions and limitations which we believe to be reasonable, and you are cautioned not to give undue weight to such estimates. Although we believe that these sources are reliable, we cannot guarantee the accuracy or completeness of this information, and we have not independently verified this information. While we believe the estimated market position, market opportunity and market size information included in this presentation are generally reliable, such information, which is derived in part from management's estimates and beliefs, is inherently uncertain and imprecise. Projections, assumptions and estimates of our future performance and the future performance of the industry in which we operate are subject to a high degree of uncertainty and risk due to a variety of factors, including those described above. These and other factors could cause results to differ materially from those expressed in our estimates and beliefs and in the estimates prepared by independent parties.

We present EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Net Income per Diluted Share to help us describe our operating and financial performance. These are non-GAAP financial measures commonly used in our industry and have certain limitations and should not be construed as alternatives to net income and other income data measures (as determined in accordance with generally accepted accounting principles in the United States, or GAAP), or as better indicators of operating performance. We have included these non-GAAP measures because they are key measure used by management and the board of directors to evaluate operating performance and the effectiveness of our business strategies and make budgeting decisions. Management believes it is useful to investors and analysts to evaluate this non-GAAP measure on the same basis as management uses to evaluate our operating results. We believe that excluding items that may not be indicative of, or are unrelated to, its core operating results and that may vary in frequency or magnitude from Net income per diluted share, enhances the comparability of our results and provides a better baseline for analyzing trends in our business. Non-GAAP financial measures should be viewed as supplementing, and not as an alternative or substitute for, our financial results prepared in accordance with GAAP. EBITDA, Adjusted EBITDA, Adjusted Net Income, and Adjusted Net Income per Diluted share as defined by us may not be comparable to similar non-GAAP measures presented by other companies. Our presentation of such measures should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. See the footnotes on pages 17 and 18 of this presentation for a discussion of actual and forecast Adjusted Net Income and Adjusted Net Income per diluted share as well as our Financial results press release issued on September 5, 2018 and filed with the SEC on Form 8-K for a reconciliation of actual Adjusted Net Income and Adjusted Net Income per diluted share to Net Income and Net Income per diluted share, the most comparable GAAP measures.

We operate on a fiscal calendar used in the retail industry which results in a given fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to January 31 of the following year. Prior to fiscal year 2012, we operated on a fiscal calendar which resulted in a given fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to December 31 of that year. In addition, due to our acquisition by affiliates of CCMP Capital Advisors LP (collectively referred to as "CCMP") in 2012, we report the period from January 1, 2012 through September 28, 2012 as the "predecessor period 2012" and the period from September 29, 2012 through February 2, 2013 as the "successor period 2012". Except as otherwise indicated, references to years or fiscal years for our Company refer to the reported fiscal year end date for that period.

As of July 30, 2016, the market value of our common stock that was held by non-affiliates exceeded $700 million and, therefore, we no longer qualified as an emerging growth company ("EGC") within the meaning of Jumpstart Our Business Startups Act of 2012 for such status commencing January 28, 2017. As a large accelerated filer, we are now subject to certain disclosure requirements that are applicable to other public companies that were not applicable to us as an EGC, beginning with our Annual Report for the fiscal year ending January 28, 2017.

Management Presenters

Mark Butler
Co-Founder, Chairman, President and Chief Executive Officer

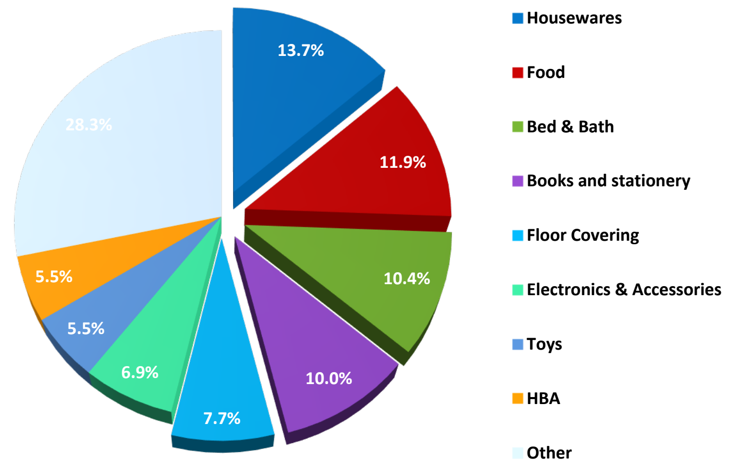
John Swygert
Executive Vice President and Chief Operating Officer

Jay Stasz
Senior Vice President and Chief Financial Officer

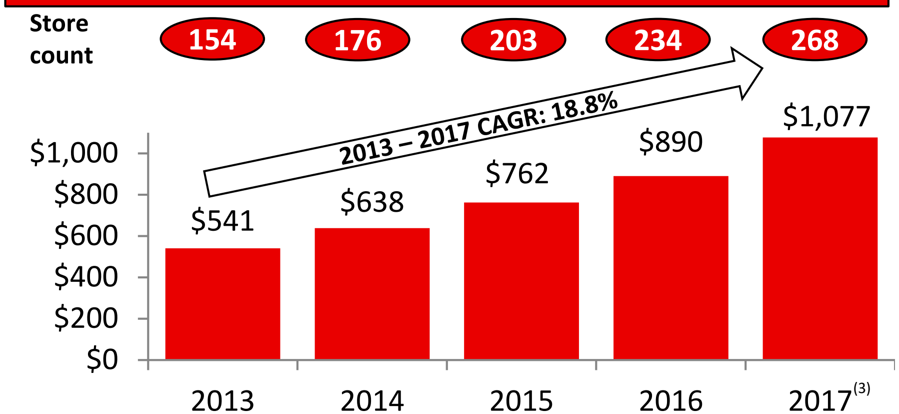
Company Overview

- Fast growing, extreme value retailer offering a broad selection of "Good Stuff Cheap"
- Founder-led management team with deep-rooted company culture
- Treasure-hunt shopping experience
- Something for everyone, universal customer appeal
- 303[1] stores in 23 states
- Significant white space opportunity
  - 950[2] store national opportunity
- Infrastructure investments made to support growth

Broad Selection of "Good Stuff Cheap"



Net Sales and Comparable Store Sales

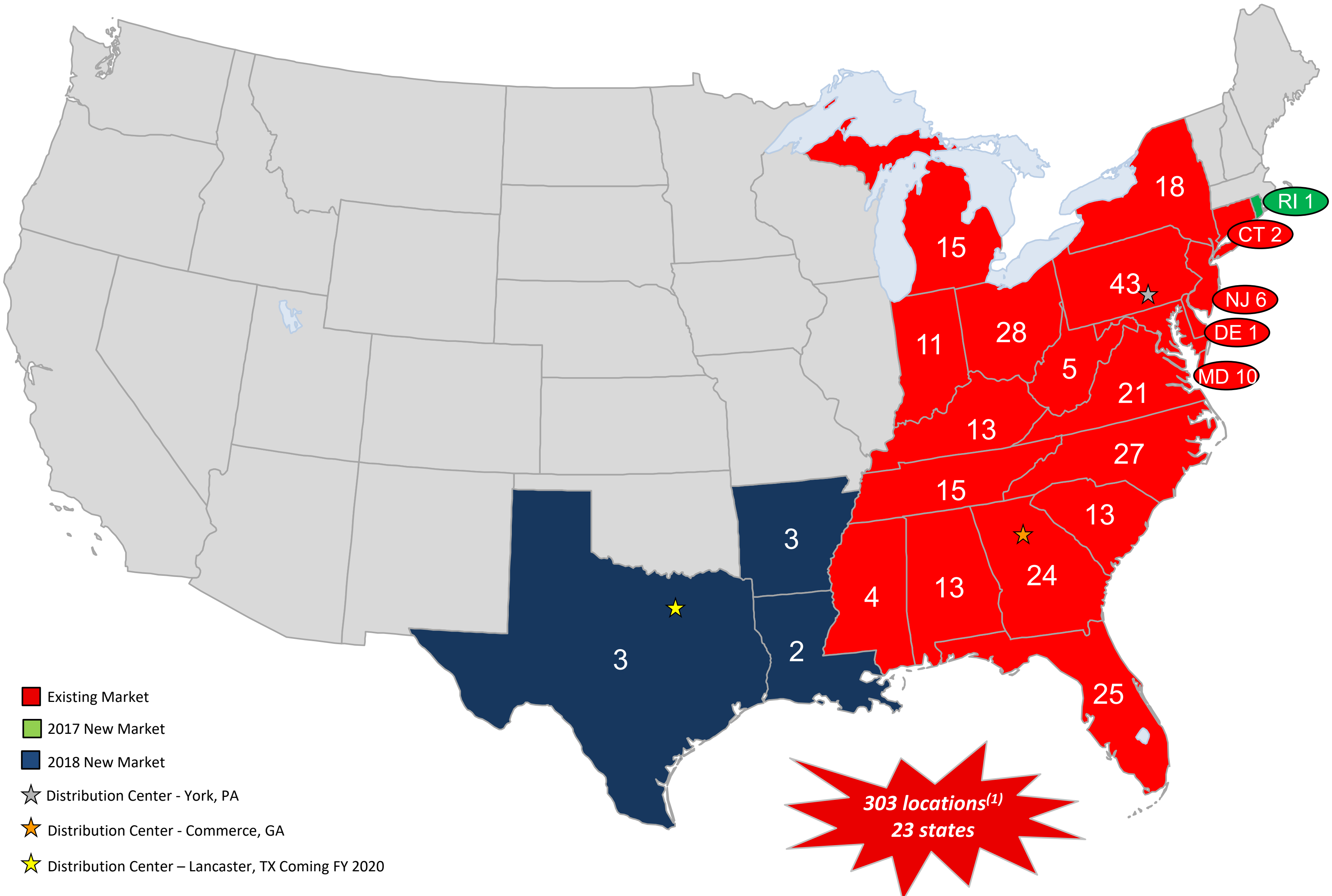


% CSS	1.1%	4.4%	6.0%	3.2%	3.3%

Note: Calculations of compound annual growth rate ("CAGR") from fiscal year 2013 to fiscal year 2017 presented herein are calculated beginning on February 1, 2014, the last day of fiscal year 2013, and ending on February 3, 2018, the last day of fiscal year 2017; % CSS reflects comparable store sales growth

(1) As of January 14, 2019
(2) Based on internal estimates and third party research conducted by Jeff Green Partners, a retail real estate feasibility consultant that provides market analysis and strategic planning and consulting services
(3) 2017 includes a 53rd week

Store Count by State



(1) As of January 14, 2019

Significant Accomplishments

- **Positive comparable store sales** delivered for the last 18 consecutive quarters
- Adjusted Net Income per diluted share has **exceeded expectations** each quarter since going public
- **Added** 117 new stores since IPO and opened 300th store
- **Paid off** term loan debt of $200 million
- **Obtained** 18 former Toys R Us store locations
- **Continue to build team:**
  - **Larry Kraus**, CIO
  - **Hired Ray Daugherty** , SVP of Supply Chain
  - **Hired several key buyers**

	FY 2018 Outlook	FY 2017 [1]
Net Sales	~ $1,245 million (+17.5% vs FY 2017 on 52 week basis)	$1,077 million (+19.1% on 52 week basis)
Comparable Store Sales	~4.4% (against a +6.5% 2-year stack)	+3.3% (against a +9.2% 2-year stack)

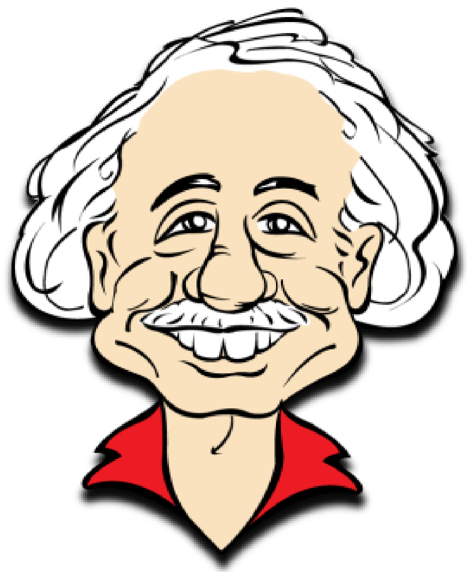
(1) 2017 includes a 53rd week

Formula For Success

Highly experienced and disciplined teams

Tremendous white space opportunity

"Good Stuff Cheap"—Ever changing product assortment at drastically reduced prices



Strong and consistent store model built for growth

Distinctive brand and engaging shopping experience

Extremely loyal "Ollie's Army" customer base

Proven, fast growing extreme value retailer with strong and consistent financial performance and attractive new store return on investment

Highly Experienced and Passionate Founder-led Management Team

Name	Title	Retail Experience	Ollie's Experience	Prior Experience
Mark Butler	Co-Founder, Chairman, President & Chief Executive Officer	41 Years	36 Years	Ollie's Bargain Outlet "Good Stuff Cheap"
John Swygert	EVP, Chief Operating Officer	26 Years	15 Years	factory 2-U: EVP; petco: Business Development
Jay Stasz	SVP, Chief Financial Officer	19 Years	3 Years	Sports Authority: SVP Finance & Accounting; Deloitte & Touche LLP: Audit
Omar Segura	SVP of Store Operations	31 Years	5 Years	Sports Authority: Regional VP-Store Ops; Kohl's: Regional VP-Store Ops
Kevin McLain	SVP of Merchandising, General Merchandise Manager	30 Years	5 Years	Variety Wholesalers Incorporated: SVP-GMM/Hardlines; Anna's Linens: Vice President
Howard Freedman	VP of Merchandising	43 Years	18 Years	Pfaltzgraff: President of Retail Division
Jerry Altland	VP of Real Estate	41 Years	33 Years	Jordache
Andre Dickemann	Chief Logistics Officer	27 Years	13 Years	HSN: SVP; kraft foods: Director
Dan Haines	VP of Marketing & Advertising	12 Years	12 Years	Campbell's: Marketing; Hershey's: Brand Management
Rob Bertram	VP & General Counsel	5 Years	5 Years	Eckert Seamans Attorneys at Law: Attorney; Stevens & Lee Lawyers & Consultants: Attorney; McNees Wallace & Nurick LLC: Attorney
Kelly Costanza	SVP of Human Resources	17 Years	4 Years	rue21: VP Talent Management and HR; American Eagle Outfitters: VP of Recruiting; EDMC Education Management Corporation: VP Talent Management and HR
Larry Kraus	Chief Information Officer	23 Years	2 Years	Bon-Ton: VP of Technology; Rite Aid: Manager Technical Services; Walmart: Systems Engineer
Ray Daugherty	SVP of Supply Chain	20 Years	1 Year	NEX: VP Global Logistics; Dollar Tree: Director of US Operations

Highly Experienced and Disciplined Merchant Team

- Highly experienced team
  - 203(1) combined years of experience at Ollie's
  - Approximately 13(1) years of average experience at Ollie's
- Strong, well-established relationships
  - First call for available deals
- Strive to hit internal margin goals

Howard Freedman
VP of Merchandising
18 Years at Ollie's

Kevin McLain
SVP – General Merchandise Manager
5 Years at Ollie's

Jeff Anderson
DMM
Hardware, Patio, Lawn & Garden
24 Years at Ollie's

Scott Feinstein
DMM
Toys & Pets
22 Years at Ollie's

Shane Thornton
DMM
Sporting Goods, Electronics, Hardware & Automotive
8 Years at Ollie's

Megan Lindsay
DMM
HBA, Food & Candy
6 Years at Ollie's

Robert Sanders
Floor Coverings
27 Years at Ollie's

Jennifer Nickel
Food & Candy
16 Years at Ollie's

Mark Cochran
Housewares
12 Years at Ollie's

Mema Sollberger
Clothing & Domestics
14 Years at Ollie's

Doug Kraft
Books
8 Years at Ollie's

Brian Hass
Furniture & Summer Furniture
3 Years at Ollie's

Ken Smith
Pets
2 Year at Ollie's

Timothy Maglowski
Housewares
1 Year at Ollie's

Shelly Trosclair
Clothing, Luggage & Seasonal
<1 Year at Ollie's

(1) Includes Mark Butler's 36 years with Ollie's and excludes new hires in 2018

"Good Stuff Cheap" – Ever Changing Product Assortment at Drastically Reduced Prices

- Frequently changing assortment of famous brand name products
  - There is something for everyone
- Prices up to 70% below department and specialty stores (the "fancy stores") and up to 20-50% below mass market retailers
- Deal-driven buying philosophy creates newness and "shop now" sense of urgency
- Growing availability of product with enhanced scale

Broad Selection of Brand Name Products Across Merchandise Departments

Housewares	Food	Books and Stationery	Bed and Bath	Floor Coverings	Toys	Hardware	Other
P&G	Kellogg's	HOUGHTON MIFFLIN HARCOURT	Sunbeam	MOHAWK	Hasbro	GE	HERSHEY'S Levi's Hanes
BLACK&DECKER	Campbell's		Serta	CountryLiving	MATTEL	BLACK& DECKER	Johnson&Johnson m&m MARS Rawlings
JARDEN corporation	General Mills	Random House, Inc.	LEVOLOR	ORIENTAL WEAVERS	LIONEL SINCE 1900	STANLEY	Haier Unilever
BISSELL	ConAgra Foods Food you love	SIMON & SCHUSTER A VIACOM COMPANY	Beautyrest	COURISTAN The foundation of any great room.	Fisher-Price	RUST-OLEUM BRANDS	Russell Stover CANDIES FRUIT OF THE LOOM.

Distinctive Brand and Engaging Shopping Experience

Engaging Shopping Experience

- Unique, fun and engaging treasure hunt shopping experience
- No frills, semi-lovely warehouse style stores featuring a broad selection of "Good Stuff Cheap" and "Real Brands! Real Bargains!"
- We display products on accessible fixtures to make it easy for customers to browse our stores
- We aim to disarm our customer with humor, allowing them to see our products for what they are—extremely great bargains

Distinctive Brand

Witty Signage

Highly Recognizable Caricatures

Shopping Environment

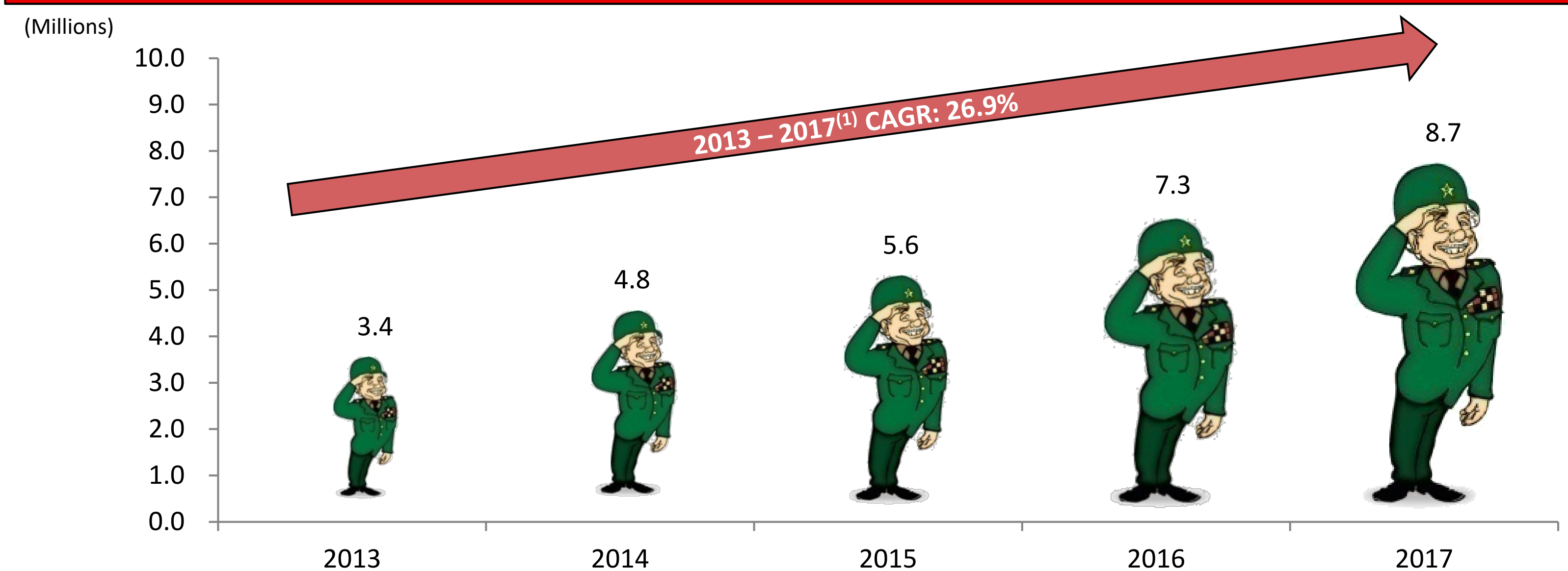
Distinctive Marketing Materials

Humorous brand image, compelling values and welcoming stores define Ollie's as a unique and compelling destination shopping location

Extremely Loyal "Ollie's Army" Customer Base

- Members shop more and spend more than non-members
  - Spend approximately 40% more than non-members per shopping trip
- Active members have demonstrated strong loyalty to Ollie's
  - Accounted for ~ 70% of our net sales in fiscal year 2017
  - Willing to drive upwards of 25 minutes to our destination locations

Tremendous Ollie's Army Membership Growth



(1) As of February 3, 2018

Strong and Consistent Store Model Built for Growth

- Portable, predictable, flexible, low-cost new store model
  - Generates strong, consistent cash flow and attractive return on investment
- Real estate site selection capitalizes on ample supply of low-cost second generation real estate
- Disciplined approach to real estate selection
  - Strict lease criteria
  - Contiguous states
  - Cash-on-cash return
- New store model proven successful:
  - Across vintages
  - Geographic regions
  - Population densities
  - Demographic groups
  - Real estate formats
  - Regardless of any co-tenant or economic environment

Year 1 Return Analysis

(dollars in thousands)

	New Unit Model
Sales	~$3,900
Four-Wall EBITDA %(1)	~15%
Net Cash Investment(2)	~$1,000
Cash-on-Cash Return(3)	*59%*

~2 year payback period

Note: Four-wall EBITDA for our stores reflects store net income before depreciation and amortization expense and excluding any impact for interest expense, income tax expense and general and administrative expenses
(1) Four-wall EBITDA divided by net sales
(2) Net cash investment for the New Unit Model includes store fixtures and equipment of ~$250,000, store-level and distribution center inventory (net of payables) of ~$550,000 and pre-opening expenses of ~$200,000
(3) Store-level cash-on-cash returns, as described herein, are calculated by dividing Four-wall EBITDA for a store by our net cash investment in that store

Ollie's Bargain Outlet
"GOOD STUFF CHEAP"

GROWTH STRATEGIES

Significant Opportunity for Growth

1 Grow our store base

– Opportunity to expand our store base by ~650 units to 950[1] units, ~3.1x current store base

2 Increase our offerings of great bargains

– Enhance product offerings with expanded access to bargains as we grow

3 Leverage and expand Ollie's Army

– Rollout of Ollie's Army Ranks and Mobile App

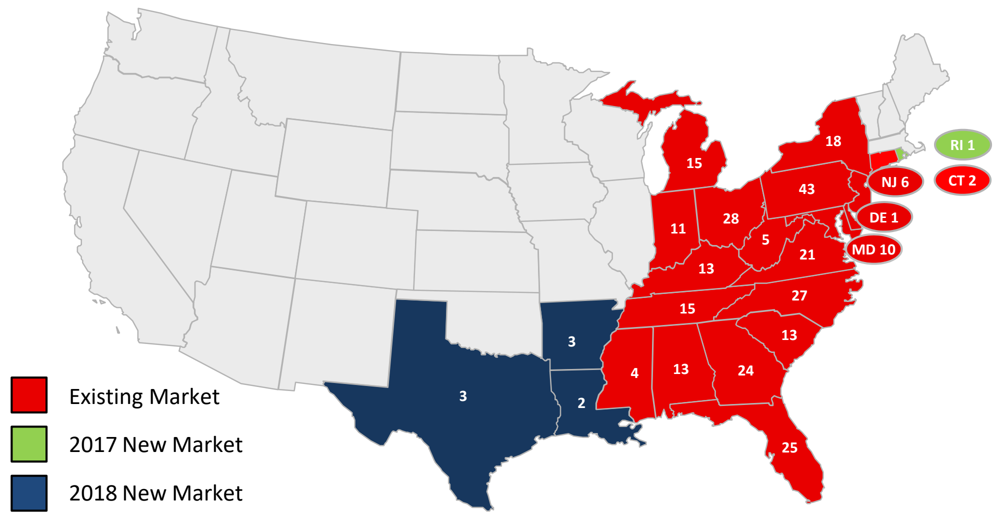
– Utilize targeted and digital marketing to drive traffic and repeat purchases

(1) Based on internal estimates and third party research conducted by Jeff Green Partners, a retail real estate feasibility consultant that provides market analysis and strategic planning and consulting services

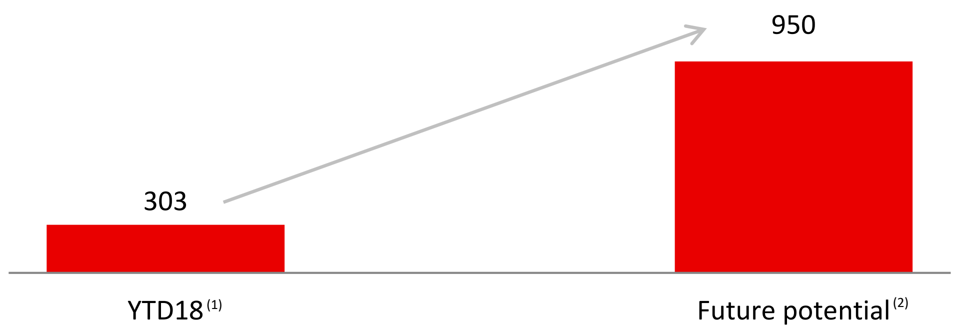
1 Tremendous White Space Opportunity

- Proven portability of new store model
  - Entered 7[1] new states since IPO and opened 117 net new stores[3]
  - Expanded contiguously to leverage brand awareness and marketing investments
- Our stores are supported by two distribution centers in York, PA and Commerce, GA, which we believe can support between 350 to 400 stores
- Adding third distribution center in Dallas area in FY 2020
- 59% return on investment target for new stores
- Opportunity for more than 950[2] Ollie's stores nationally
  - Opened 35 net new stores in fiscal year 2018 and ended fiscal year with 303 stores
  - Real Estate pipeline robust given retail disruption

Tremendous White Space Potential[1]



Potential to Grow Store Base by ~3.1x[2]



We have invested in our associates, infrastructure, distribution network and information systems to allow us to continue to rapidly grow our store footprint

(1) As of January 14, 2019
(2) Based on internal estimates and third party research conducted by Jeff Green Partners, a retail real estate feasibility consultant that provides market analysis and strategic planning and consulting services
(3) One of our store locations was closed in 2011 due to a significant flood, re-opened in fiscal year 2012 and is included in the new store count for fiscal year 2012. One store location was closed in July 2015 and October 2018

2 Increase Our Offerings of Great Bargains

- Increased visibility from IPO and geographic expansion
  - Increased inbound calls on deals
- Increased buying power and scale from growth
  - Increased ability to buy directly from vendors
  - Strict internal margin goals and deal criteria
- Continued focus on building and developing the merchant team

3 Leverage and Expand Ollie's Army

- Recruit new members to Ollie's Army, Reward existing members and build brand awareness
  - Army ranks and mobile app initiated Q3 of 2018
  - Increase frequency of store visits and spending
  - Utilize data driven targeted marketing
  - Embark on integrated social media strategy
  - Build long, lasting customer relationships

Signup

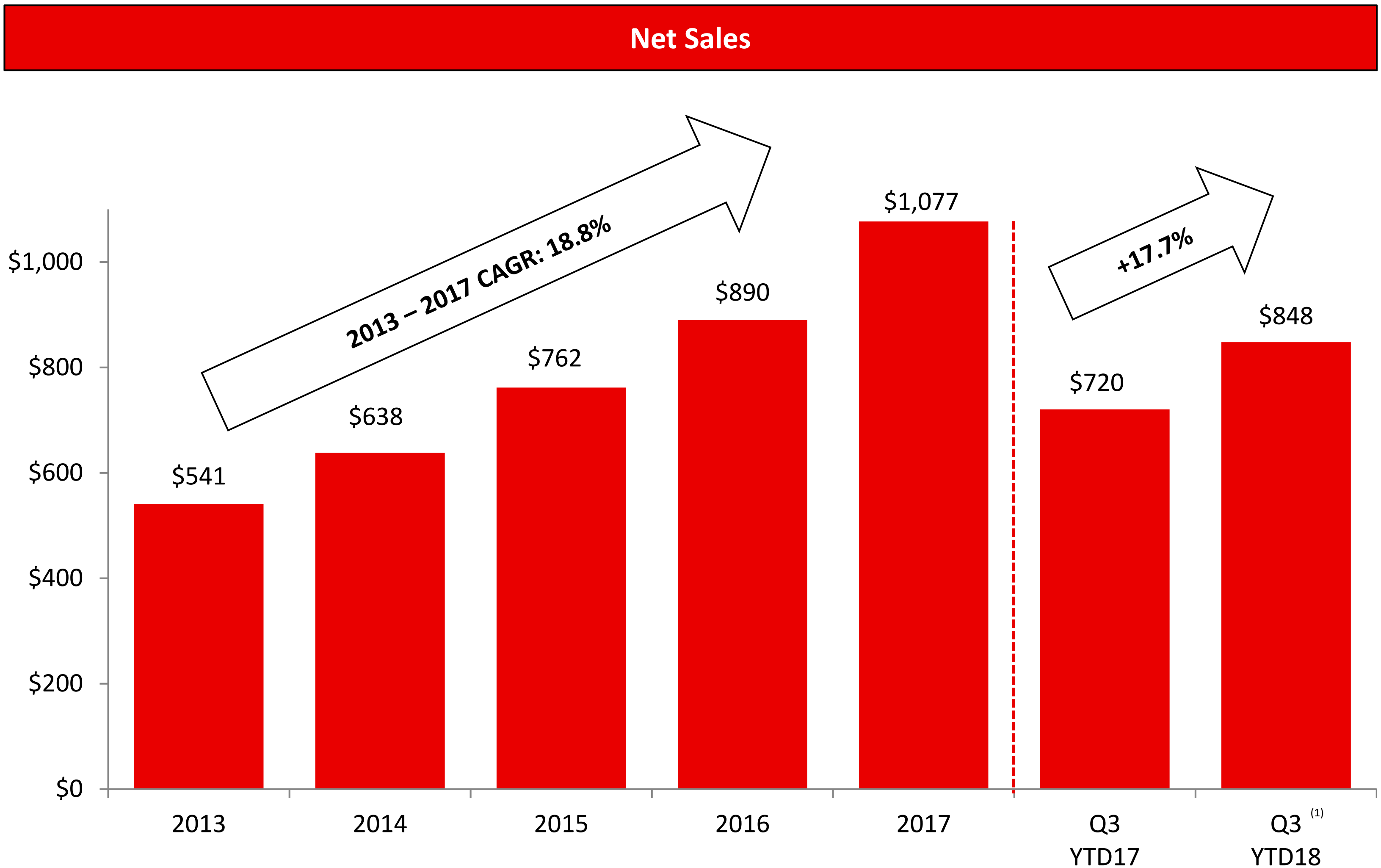
Mailers / Promotions

Flyer Emails

FINANCIAL REVIEW

Compelling Sales Growth

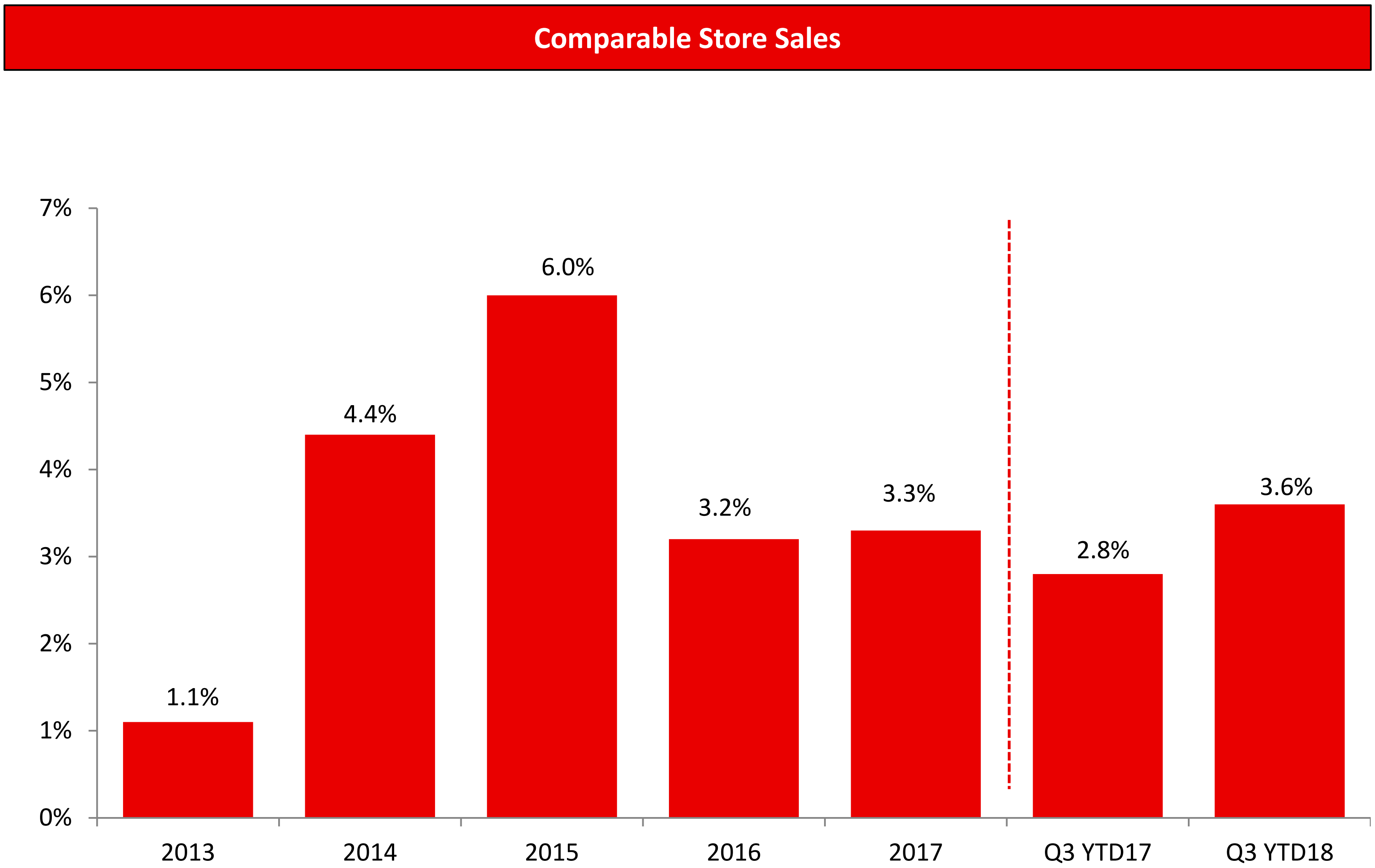
($ Millions)



Note: Calculations of compound annual growth rate ("CAGR") from fiscal year 2013 to fiscal year 2017 presented herein are calculated beginning on February 1, 2014, the last day of fiscal year 2013, and ending on February 3, 2018, the last day of fiscal year 2017; % CSS reflects comparable store sales growth

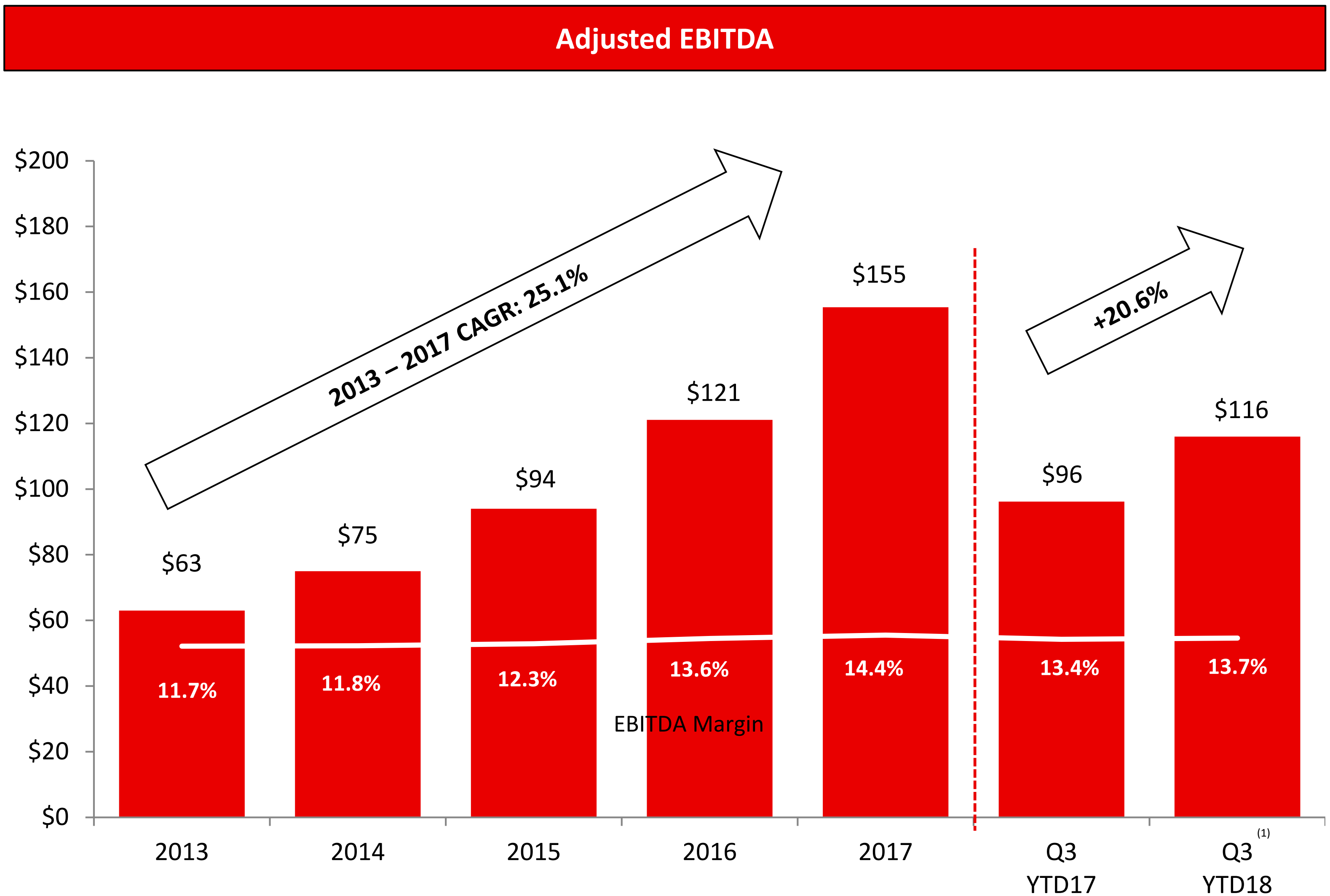
(1) As of November 3, 2018

Compelling Comp Sales Growth



Compelling EBITDA Growth

($ Millions)



Note: Calculations of compound annual growth rate ("CAGR") from fiscal year 2013 to fiscal year 2017 presented herein are calculated beginning on February 1, 2014, the last day of fiscal year 2013, and ending on February 3, 2018, the last day of fiscal year 2017; % CSS reflects comparable store sales growth

(1) As of November 3, 2018

Holiday Sales Results and Annual Outlook Update

Sales increase +16.6% and Comparable store sales increase of +7.1% for Holiday Period (1) (1)

Fiscal year 2018 outlook:

	Updated Outlook	Prior
Net Sales	**~ $1,245M**	$1,226M - $1,231M
Comp Sales	**~ 4.4%**	3.0% to 3.5%
Adjusted Net Income Per Diluted Share (2)	**~ $1.81**	$1.74 to $1.77

(1) Nine Weeks ended January 5, 2019

(2) The guidance ranges as provided for Adjusted net income per diluted share excludes the after tax loss on extinguishment of debt and excess tax benefits related to stock-based compensation reported for the thirty-nine weeks ended November 3, 2018 as well as any future related estimates as the Company cannot predict such estimates without unreasonable effort.

Formula For Success

Highly experienced and disciplined teams

Tremendous white space opportunity

"Good Stuff Cheap"—Ever changing product assortment at drastically reduced prices

Strong and consistent store model built for growth

Distinctive brand and engaging shopping experience

Extremely loyal "Ollie's Army" customer base

Proven, fast growing extreme value retailer with strong and consistent financial performance and attractive new store return on investment

APPENDIX

Adjusted EBITDA Reconciliation

($ Thousands)

Reconciliation of Net Income to Adjusted EBITDA

	Q3 YTD		Fiscal Year				
	2018	2017	2017	2016	2015	2014	2013
Net Income	$85,119	$57,540	$127,594	$59,764	$35,839	$26,915	$19,541
Interest Expense, Net	$1,188	$3,601	$4,471	$5,935	$15,416	$18,432	$17,493
Loss on Extinguishment of Debt	$100	$397	$798	$0	$6,710	$671	$1,848
Depreciation and Amortization Expenses(1)	$10,458	$8,961	$12,261	$10,668	$9,342	$8,785	$9,491
Income Tax Expense	$13,730	$19,824	$2,893	$36,495	$21,607	$16,763	$11,277
EBITDA	**$110,595**	**$90,323**	**$148,017**	**$112,862**	**$88,914**	**$71,566**	**$59,650**
% Margin	*13.1%*	*12.5%*	*13.7%*	*12.7%*	*11.7%*	*11.2%*	*11.0%*
Non-Cash Stock Based Compensation Expense	$5,392	$5,932	$7,413	$6,685	$5,035	$3,761	$3,440
Purchase Accounting(1)	($1)	($59)	($64)	($134)	($284)	($383)	($208)
Debt Financing Expenses(2)	-	-	-	-	$89	$446	$510
Transaction Related Expense(3)	-	-	-	$1,736	$322	-	-
Adjusted EBITDA	**$115,986**	**$96,196**	**$155,366**	**$121,149**	**$94,076**	**$75,390**	**$63,392**
% Margin	*13.7%*	*13.4%*	*14.4%*	*13.6%*	*12.3%*	*11.8%*	*11.7%*

(1) Includes purchase accounting impact from the inventory fair value step-up and unfavorable lease liabilities related to the CCMP Acquisition
(2) Represents fees and expenses related to amendments to our Senior Secured Credit Facilities
(3) Represents professional services and one-time compensation expenses related to the IPO

OLLIE'S Bargain OUTLET®

"GOOD STUFF CHEAP"

ICR Conference
January 2019

Corrected Transcript

27-Aug-2020

Ollie's Bargain Outlet Holdings, Inc. (OLLI)

Q2 2020 Earnings Call

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John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

Jay Stasz
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Brandon Lee
Analyst, Citigroup Global Markets Singapore Pte Ltd.

Jeremy Scott Hamblin
Analyst, Craig-Hallum Capital Group LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to the Ollie's Bargain Outlet Conference Call to discuss Financial Results for the Second Quarter of Fiscal 2020. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session and instructions will follow at that time. Please be advised that reproduction of this call in a whole or in a part is not permitted without written authorization from Ollie's. And as a reminder, this call is being recorded.

On the call today from management are John Swygert, President and Chief Executive Officer; and Jay Stasz, Senior Vice President and Chief Financial Officer.

I will now turn the call over to Jean Fontana, Investor Relations, to get started. Please go ahead, ma'am.

Jean Fontana

Managing Director, ICR LLC

Thank you, Valorie, and hello, everyone. A press release covering the company's second quarter 2020 financial results was issued this afternoon and a copy of that press release can be found on the Investor Relations section of the company's website.

I want to remind everyone that management's remarks on this call may contain forward-looking statements, including, but not limited to, predictions, expectations or estimates and actual results could differ materially from those mentioned on today's call. Any such items, including with respect to our future performance should be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You should not place undue reliance on these forward-looking statements, which speak only as of today, and we undertake no obligation to update or revise them for any new information or future events.

Factors that might affect future results may not be in our control and are discussed in our SEC filings. We encourage you to review these filings, including our annual report on Form 10-K and quarterly reports on Form 10-Q, as well as our earnings release issued earlier today for a more detailed description of these factors.

We will be referring to certain non-GAAP financial measures on today's call such as adjusted EBITDA, adjusted net income and adjusted net income per diluted share that we believe may be important to investors in assessing our operating performance. Reconciliations of the most closely comparable GAAP financial measures to these non-GAAP financial measures are included in our earnings release.

With that, I will turn the call over to John.

John W. Swygert

President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

Thanks, Jean, and hello, everyone. Thanks for joining our call today. Before discussing our second quarter results, I would like to thank the entire Ollie's family, our suppliers and our customers for their unwavering support as the world continues to cope with the impacts of COVID-19. Our team's response to these challenges has been nothing less than extraordinary and I am incredibly proud of how we have managed to this crisis together.

Since the outset of this pandemic, our priorities have remained to ensure the health and safety of our team members and our customers, support our communities and offer great deals. I am very excited to report that we're delivering what our customers need and want during these difficult times.

We delivered our best quarterly results in our 38-year history with record sales and earnings. Total sales grew 59% and comparable store sales increased an incredible 43% in the quarter. Top-line growth combined with gross margin expansion and tight expense controls led to an operating margin in excess of 17% in 193% growth in adjusted net income.

Our sales are strong across the board with 20 of 21 of our departments comping positive. Our top performing categories were health and beauty aids, housewares, bed and bath, flooring and electronics. Broadly speaking, it's a combination of factors that drove sales for the quarter.

We clearly benefited from macro elements such as government stimulus monies, lifestyle changes and having our stores open while other retailers were closed for a portion of the quarter. We effectively communicated to our customers that we were open for business and ready to safely serve them and we have the right products at great prices. It's what we do.

As a result, Ollie's Army customers were shopping with us more often and spending more per visit. And we attracted new customers with our value proposition in great deals. Our merchant team once again demonstrated their ability to be nimble and responsive to opportunities in the marketplace and adapt to changing consumer needs.

The team leveraged long-standing vendor relationships and sourced from new vendors to expand our offerings of high demand items and new products, including certain essential items unavailable in other stores. They are continuing to source great deals and provide incredible values across all of our merchandise categories.

Our sales velocity has us chasing the business a little right now, but our deal flow remains as strong as ever and we continue to see lots of product availability. We have often mentioned that it takes time for the full impact of marketplace disruption to manifest into megadeals for us, so we expect additional opportunities still to come. Given our long-term relationships, proven ability to handle large deals and strong liquidity position, we are confident that we're in great position to capitalize on a robust closeout environment.

While our merchants are doing an amazing job securing deals, our distribution center team members are doing an incredible job processing substantially higher volumes than planned. The opening of our third distribution center has proven well-timed as all facilities are operating at full steam ahead.

We are hiring additional team members and working additional hours to aggressively push product to our stores. Our store team members continue to do an incredible job processing incoming merchandise, keeping the shelves stocked, and serving our customers while adhering to required CDC guidelines for health and safety.

While we ended the quarter with inventories down 7.7%, our inventories have remained in good shape, particularly at store level and we are comfortable with our current inventory position. As I previously mentioned, deal flow remains remarkably strong. We are pushing product through our distribution centers and into our stores at record levels.

In fact, leaner inventories dovetail nicely into our strategy of maintaining more capacity and are open to buy, what I call dry powder. These practices allow us to quickly respond to changing consumer demands and opportunistic deals. As I said before, I want us to be on offense at all times.

I believe operating with reduced store-level inventories will improve the efficiencies of our store operations team. Most importantly, this will provide a better shopping experience for our customers who more see our fresh new deals and have a greater sense of urgency to purchase.

Ollie's Army was a significant driver of our amazing sales in the quarter with members shopping more often and spending more per visit. We signed up new members in an unprecedented numbers, surpassed even the busiest of holiday seasons and ended the quarter with 11 million active members, a 13.4% increase over the prior year.

Our reach went well beyond Ollie's Army. We believe we have attracted a lot of new customers with our assortment of essential products and great deals. Like the Army, the average basket of these customers exceeded historical levels, which significantly contributed to our comps. We've got them in the door with our value proposition and great deals. Our next efforts will be to hold on to our market share gains by converting these new shoppers to the Army.

While we are very pleased with the performance of our comp stores, our long-term growth driver has been and will continue to be new stores. We remain absolutely committed to annual mid-teen unit growth as an important component of our long-term algorithm, with a ceiling of 50 to 55 stores per year.

To that end, our 2021 pipeline looks strong with a solid mix of both existing and new markets. We have a tremendous runway for growth with potential to expand our store base to over 1,050 locations across the country. That's a lot of white space and we're always on the lookout for high-quality opportunities.

Value is clearly where the consumer is these days and we are very excited about our growth prospects. We are certainly looking forward to things getting back to normal. In the meantime, we're going to keep doing what we do best; buy cheap and sell cheap, while maintaining discipline in how we operate our business.

As we indicated in our press release, comp growth is now tracking in the high teens and we expect these trends to continue to slow as we progress to the second half of this year. There remains a lot of uncertainty related to COVID and we cannot predict the impact of the health and financial crisis, future stimulus or the landscape of the retail environment.

We believe we are well positioned to benefit from the continued disruption in the marketplace. As always, we remain very excited about our long-term opportunities as we continue to leverage the agility of our unique closeout business model and execute our strategic growth plans.

We delivered unbelievable results this quarter and I could not be prouder to be part of this team. I want to thank our 9,400 team members for their incredible dedication and contributions to the business, particularly during this demanding period. As we say, we are Ollie's.

I'll now hand it over to Jay to take you through our financial results.

Jay Stasz

Senior Vice President & Chief Financial Officer, Ollie's Bargain Outlet Holdings, Inc.

Thanks, John, and good afternoon, everyone. Like John, I also want to express my gratitude to the entire Ollie's team. Their perseverance and hard work have truly been the drivers of the incredible results we achieved in a challenging environment, and I too am very grateful. Thank you.

We are very pleased with our record-setting top- and bottom-line performance. Net sales increased 58.5% to $529.3 million. Comparable store sales increased 43.3% in the quarter, driven by increases in both average basket and transactions. We had more customers shop with us than ever before with larger than historical baskets across existing and new customers.

During the quarter, we opened 6 new stores for a total of 23 openings in the first half of the year, ending the quarter with 366 stores in 25 states, a 10.2% year-over-year increase in store count. Our new stores continued to perform above our expectations across both new and existing markets.

Gross profit increased 66.8% to $206.8 million and gross margin increased 190 basis points to 39.1%, returning to historical levels for the quarter. The increase in margin was evenly split between improvements in merchandise margin, driven by increased markup, and leveraging of supply chain costs.

SG&A expenses increased to $109.1 million, primarily due to additional selling expenses from our new stores and higher store payroll to support the significant increase in sales. SG&A as a percentage of net sales decreased 560 basis points to 20.6%. The decrease was driven by significant leverage in payroll and occupancy as well as other fixed costs due to the strong increase in comp store sales as well as continued tight expense control.

Operating income nearly tripled to $92 million in the quarter from $30.8 million last year. Operating margin increased 820 basis points to 17.4%. Adjusted net income, which excludes tax benefits related to stock-based compensation, increased to $68.9 million from $23.5 million last year. Adjusted diluted earnings per share increased threefold to $1.04 from $0.35 in the prior year. Adjusted EBITDA increased to $99.4 million from $37.5 million and adjusted EBITDA margin increased 760 basis points to 18.8%.

Capital expenditures in the quarter totaled $5.7 million compared with $20.2 million in the prior year. Last year expenditures included approximately $10 million for the construction of our new DC. At the end of the period, we had no outstanding borrowings under our $100 million revolving credit facility and $305 million in cash. In the quarter, we generated nearly $169 million in operating cash flows.

Our proven track record of robust cash flow generation is a testament to the strength of our model. We have a very strong balance sheet, and we're going to continue to prioritize liquidity and cash in this period of economic uncertainty.

Now turning to our outlook for the back half of the year. Based on the level of continued market uncertainty, including the duration of the pandemic and impact on consumer spending, we are not providing 2020 guidance at this time. Forecasting in this environment is obviously challenging with the potential for a wide range of outcomes, but I can share some high-level thoughts on key drivers.

As John indicated, comps are now tracking in the high teens and we expect slower growth as we progress through the year. There remains a great deal of uncertainty around a number of factors, including consumer demand, the impact of economic stimulus and on the competitive front, the potential for a highly promotional environment.

Looking at gross margin, we continue to manage to our long-term goal of 40%. As we stated prior to the pandemic, we had assumed our gross margin for 2020 would be impacted by 20 to 30 basis points of headwind from our New Texas DC as it ramps to full capacity. This rate could, of course, be impacted if we experience significant changes in sales trends, mix, supply chain costs, or promotions.

Finally, SG&A. As you know, we always have and always will keep a tight rein on our expenses, no changes there. As we've said before, our leverage point on expenses is typically about a 1% to 1.5% comp. So if we do better than that, we can expect some leverage, which we certainly saw on our Q2 performance.

Our current plans for 2020 include the following: The opening of 46 stores, including 1 relocation and 1 closure. We have opened four stores so far in Q3. While we currently don't expect further delays, there is the potential for some openings to be pushed into next year. We expect capital expenditures of $30 million to $35 million primarily for new stores, IT projects and store-level initiatives.

As always, we will continue to evaluate our plans and respond to the marketplace as necessary. Our nimble operating model enables us to pivot quickly. It's the effectiveness of this model, our strong financial position and long-term growth opportunities that have us excited for our future.

I'll now turn the call back to the operator to start the Q&A session. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Matthew Boss of JPMorgan. Your line is open.

Matthew R. Boss
Analyst, JPMorgan Securities LLC

Q

Thanks, and congrats on a great quarter.

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

Thanks, Matt.

Matthew R. Boss
Analyst, JPMorgan Securities LLC

Q

John, so on your high teens current comp trend, how much do you believe leaner inventory on hand may be constraining comps at this current time? And with that, what's your outlook on closeout product availability as we think about opportunity in the back half of this year relative to the front half of 2021? Or maybe if you could just elaborate on the timeline. I think that you cited to take full advantage of industry disruption.

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

Yeah, Matt, I don't believe the leaner inventories are negatively impacting our comps one bit. I think it's actually a positive in-store, it's a better shopping experience for the customer, it's a better store operations execution level.

So I would tell you that the leaner inventory is playing as exactly what my strategy was I spoke about in Q1 when we were on the phone with everybody.

So that has me not concerned one bit. The stores are great, in great position to do business. The customers are responding tremendously to our offerings. So I think the – I'll call the slowdown in the comps are more related to businesses coming back online, the economy coming back a little bit, people have more opportunities to shop elsewhere. So that's more of the impact. It's not necessarily an inventory.

As you know, we're not having a shortage of inventory in our pipeline whatsoever. Obviously, with the 43.3% comp, we're definitely chasing the business and I'd say most retailers would have difficulty even being where we're at. Our stores are in pretty good shape still.

So from the long-term perspective, we're looking out six months or nine months. I do think that the closeout market right now is still really robust. The deals are great. Our merchants have a lot of products coming in. They have a lot of new vendors they're sourcing from today. There are some big-name vendors that, obviously, I won't mention on the call, but they're very exciting that we're getting opportunities from them even today.

What I do think we'll see is as production ramps up for those folks who are – I'll call behind the eight ball right now and chasing the business a little bit and have no inventory in their stores, there will be an abundance of excess inventory created from them, overplanning their buys or the manufacturers overproducing. I think that will probably materialize, Matt, probably in late Q4, early Q1, but there's definitely not a shortage of merchandise out there for our buyers. They're doing a great job. And as we said, the sales are very broad-based and every single department is working.

Matthew R. Boss
Analyst, JPMorgan Securities LLC

Q

That's great. And then just to follow up on gross margin, help us to think about merchandise margin opportunity in the third quarter. And then in the fourth quarter from a gross margin perspective, how best to think about lapping last year's decline? And then last, it sounds like 40% gross margin remains the model's multi-year target, if I caught that right.

Jay Stasz
Senior Vice President & Chief Financial Officer, Ollie's Bargain Outlet Holdings, Inc.

A

Yeah, Matt, this is Jay. And for sure, on long-term basis, the algorithm stays intact. We're targeting that 40% gross margin long-term. And for the year – I mean, we're not giving guidance. I mean, who knows what will happen with sales trends. But on a full year basis, generally speaking, this year if we're at more normalized levels, we would expect gross margin for this full year to be at 40%.

And remember, right, the – on the merchandise front, we're always going to have to strike that balance between managing margin and passing value on to the consumer. So I think from a merchandise margin standpoint, we're going to be targeting that 40%. There's still going to be volatility on the supply chain side on all fronts really, with the transportation side as well as the flow-through that we're putting through the DCs currently. So, we can't really get more granular than that. We can't really forecast it. But I think 40% for the full year is a target that we're shooting for.

Matthew R. Boss
Analyst, JPMorgan Securities LLC

Q

That's great. Congrats, again.

Jay Stasz
Senior Vice President & Chief Financial Officer, Ollie's Bargain Outlet Holdings, Inc.

A

Yeah.

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

Thanks, Matt.

Operator: Thank you. Our next question from Chandni Luthra of Goldman Sachs. Your line is open.

Chandni Luthra
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thank you for taking my question. In terms of your categories, basically you talked about the 20 out of 21 categories were positive. So I guess, what were the top ones and then what was that one category that didn't do well for you? And how would you think about those categories in that high teens comp that you are witnessing in third quarter at the moment?

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

Yeah, I would tell you that the only category that comped negative was our luggage department, which makes 100% sense with no one traveling. So luggage was – and it's a very, very, very small department that we operate. So that does not bother us one bit. Every other department, as we said, was very positive. Everything worked very, very well.

So as we said on the script, our best performing department was health and beauty aids, followed by housewares, bed and bath, flooring and electronics. What we saw during the quarter is with the customers' lifestyle changes, they were buying very broadly and all of the products we were selling at our stores really resonated with the consumer. So all of our departments were moving along very, very well and comping very strongly.

We continue to see a very broad-based performance in our stores today. What I would say the only difference is, is we sold out of our lawn and garden and summer furniture earlier this year than ever because of the demand. So those departments are not performing nearly as well because we don't have the inventory to back the sales with the season.

From our perspective, it's actually a good thing because the season is over and the slower markdowns for us to have to deal with. Other than that, the consumer is still responding to all the offers we have in our stores, and I think that the freshness in our stores is really driving excitement in the stores with the customer.

Chandni Luthra
Analyst, Goldman Sachs & Co. LLC

Q

That's very helpful. Thank you. And my follow-up would be any color you could give us on change from a geographic standpoint, any differences, any cadence that sort of moved us different states so far and then – and concerns re-emerge? Thank you so much.

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

We look at our company within four regions and I would tell you that all four of our regions performed very similarly and very strong. There was different timing that happened within the quarter. Obviously region one, which is up here in the Mid-Atlantic and the Northeast, they had a little more impact earlier than the South, but when you look at the entire quarter, they're all pretty evenly spread and all four regions performed very, very well.

Chandni Luthra
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you. Congratulations on a great quarter.

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

Thank you.

Jay Stasz
Senior Vice President & Chief Financial Officer, Ollie's Bargain Outlet Holdings, Inc.

A

Thank you.

Operator: Thank you. Our next question comes from Brad Thomas of KeyBanc Capital Markets. Your line is open.

Q

Hey, good afternoon. This is [ph] Andrew (00:20:54) on for Brad. Congrats again on the record performance here. I wanted to ask, looking ahead, what categories are you most excited about from a deal perspective? And then, how are you thinking about the holiday season this year?

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

Hey, [ph] Andrew (00:21:13), I would tell right now we're feeling pretty excited about most of our categories. Everything is, I can say, is on fire and it's doing very well. Obviously, we think that we're set pretty well for the seasonal category, which in our world is the heater business, the toy business and then our seasonal holiday trim-a-tree business. We feel real good where we're positioned right now.

We think the consumers are going to respond very well. But I'm saying health and beauty aids, housewares, bed and bath, we're locked and loaded. And the deals we have coming are going to be very strong. So I expect another broad-based performance in all of our categories for the back half of the year. I don't think there's any real big holes that we're seeing. The deal flow remains great as I've said and we're feeling like we're in good shape.

Q

Great. And then, as the industry continues to evolve at a fast pace, are you seeing any significant changes in the competitive landscape? And if so, how do you see this affecting your business going forward?

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

Yeah, thus far, [ph] Andrew (00:22:16), we've not seen any real changes to the competitive landscape. We didn't really feel a very large impact with all liquidations that took place in some of the stores that reopened. And during the second quarter, obviously, we saw a slight slowdown compared to where we were at, but our numbers in the first couple of months were phenomenal and that pace was not maintainable by any retailer.

So we feel like the – we're in a very unique situation being in a closeout market that we provide a real – just a real interesting shopping experience with the treasure hunt that the customers are able to come into. As you know, we have no e-commerce play and we're delivering a 43.3% comp with no e-com. So, I think that the customer is seeing what they like in our stores and resonating and we're definitely attracting new customer base into the store during this difficult period of time.

Q

Right. Thank you. And then my last question is, I know you touched on gross margins, but I guess more on the SG&A side. If you could help us with the puts and takes for expenses for the back half of the year, especially where you stand on the COVID-related expense and including the premium associate pay that you've been paying out?

Jay Stasz
Senior Vice President & Chief Financial Officer, Ollie's Bargain Outlet Holdings, Inc.

A

Oh, yeah, [ph] Andrew (00:23:36). Hi, this is Jay, and I can speak to it. Obviously, we got great leverage in the quarter with the sales levels where they were for the second quarter. We leveraged on the payroll and that included premium pay. We probably had about $4 million worth of premium pay in the quarter. And that – as we've talked about, that was $1.50 an hour premium to our frontline employees and we've stopped that at the end of the second quarter. But we're kind of transitioning it to something more a kind of a stipend, a discretionary bonus going forward on a monthly basis. But we don't expect going forward that we're going to be anywhere near or we won't be over certainly the run rate that we had in the second quarter. And with the sales trends and the way we manage payroll, we've been able to absorb it.

We also got great leverage on our occupancy, the fixed cost. So, depending on the sales levels and what happens going forward, again, we're not forecasting anything. But if we have sales that go over the 1% to 1.5% comp, that's when we start to experience leverage on the SG&A and we would expect that to continue.

And again, looking forward for the back half, on a normalized basis, and again, I know we're not on a normal basis, but we obviously got great leverage in the second quarter. So maybe on a full year basis, again, if we went back to our base plan, maybe we'd be around 24% for SG&A and maybe a little bit north of that. But again, depending on having the – we'd get some benefit from that number.

Q

Understood. Thank you. That's all from me.

Operator: Thank you.

Jay Stasz
Senior Vice President & Chief Financial Officer, Ollie's Bargain Outlet Holdings, Inc.

A

Thank you.

Operator: Our next question comes from Simeon Gutman of Morgan Stanley. Your line is open.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Hi, everyone. It's Simeon. How are you? Just to clarify...

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

Good. Yes.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

...I think at the late July update, if I am not mistaken, sales were mid-teens and I think we're talking now high teens. I just want to clarify that sales actually accelerated quarter-to-date. And I know you mentioned they're less than the 43% and that's because of opening. But what explains the slight pickup if that's right on the sequential move?

Jay Stasz
Senior Vice President & Chief Financial Officer, Ollie's Bargain Outlet Holdings, Inc.

A

Yeah, you are right. When we issued the release, we were probably a couple of weeks – 10 days out from the end of the quarter. And if you remember a year ago during that time, we had heavy clearance of air conditioners and some seasonal product. And so, that subsided a little bit towards the end of the quarter. So we saw the comps accelerate and that's why we ended up at the 43.3% versus closer to the 40% that we had in the pre-release. And now, again, those trends have decelerated a little bit, but we still feel pretty good.

From a cadence during the quarter, our strongest month of the quarter was May and we saw a step down in June, we saw a step down in July. So that trend is continuing a little bit. But like John said already on the call, part of that also was the seasonal categories where we did still have some stock early in Q3 last year. We just don't have that. We're out of stock. That's a good position to be in. And otherwise, the comp that we are experiencing now so far in the third quarter is broad-based and we feel good about that.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then, can you talk about the lead time? Is that changing at all in terms of inventory being shown to you? Is it getting longer or is it shorter? And then, I think John mentioned that being leaner could actually help, and maybe this is just an age-old question for this business, is just staying disciplined on what you're buying as you get more, let's say, brands that you hadn't had before. So how do you manage that process?

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

Well, I think the big thing, Simeon, is when I talk about staying leaner, it's in-store inventories. I'm not going to turn down deals or opportunities with new major manufacturers or new or existing vendors. We may hold the goods in the distribution center rather than getting the store too full where it's not as shoppable as I think it can be when we don't have as much top stock or have good stock in the back room. I don't think that's a great model to be running from an operational efficiency perspective.

So it's not a shortage of product. It's not a huge change in strategy. Just a little bit of change to get the stores a little fresher and we think to be a little more easily shoppable. So that's not something that I would really get too concerned with from your perspective. We're not turning the applecart upside down or anything of that nature. So we're excited where we're sitting.

I would tell you that deal flow remained strong. When I talk about when megadeals will present themselves, there's no hard fast rule. Is it 3 months, 6 months, 9 months or 12 months? Just generically speaking, we always know there's a time for a vendor to have a little bit of pain with goods that they don't have the ability to move somewhere else and then it normally becomes available for us at the price we're looking for. So that normally takes a little bit of time to materialize.

I think we're priced six months away from that, maybe seven, eight months. But we're getting plenty of deal flow today, plenty of great deals. We're excited with what we're seeing in the marketplace. So we're expecting to see some larger deals present themselves at a later date that we will take in and hold and then distribute to the stores as they can handle them.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you.

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

Yeah. Thank you.

Operator: Thank you. Our next question comes from Peter Keith of Piper Sandler. Your line is open.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Hey, good afternoon. I wanted to just dig into the closeout availability and try to understand if it might cause your sales mix to change over the coming quarters. And I guess John, what I'm – maybe looking at specifically as some of your home-related categories like housewares or bed and bath are 25% of sales. We know everything home-related has been kind of white-hot at retail. So is the closeout availability of those two categories going to come down? And is there a similar dynamic that could happen in consumables, which has also remained strong?

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

Peter, that's a great question. I would tell you that we are definitely working hard in the housewares and the bed and bath area, and obviously, the HBA area as well, which a lot of consumables reside in. But our merchants not having a hard time finding the product they need to meet their sales objectives and meet their inventory plans.

So, we don't feel like we're going to have a shortage in those categories. We're actually feeling a little bit of pickup in the bed and bath on some items we had ordered previously that were delayed. So there's a little bit of a challenge with COVID starting back in March and some goods might have been delayed during Q2 that we may not be see until Q3, which will obviously benefit us even more than what you would expect.

So I don't think there's going to be some real major shift categorically between what we historically have seen from a company perspective. I don't expect a 500 basis point shift between any department or 250 basis point shift. So I think we'll be in line with our expectations department-by-department and I think we're set and ready to go for Q4 and Q3. So...

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Okay. Very good. Also, was hoping you might be able to provide a little more detail around the ticket and traffic comps. And I guess I'm specifically interested in the traffic comp and whether you have some understanding of new customers that you've acquired during the quarter.

Jay Stasz
Senior Vice President & Chief Financial Officer, Ollie's Bargain Outlet Holdings, Inc.

A

Yeah, Peter, this is Jay. And our transactions were up 18%. The average basket was up 25%, and that was driven by a 19% increase in average unit retail. So we saw a nice pop on the – in retail as well as the ETP and the transactions up 18%. And to your point, we absolutely are attracting new customers, certainly, non-Ollie's Army customers into the box and they're spending a lot. And we're working to understand that. We're glad we can see the numbers going up and that there are new customers coming into the box. Our goal is to convert them into the Army and speak to them. So we're well under way on that.

And in addition, kind of to John's theme, the way we're going about the business now a little fresher, a little leaner, when we run these ads, it's very meaningful. The deals pop for the customers coming into the store. And those circulars, while they're not – they're a little bit old school, but they get viewed by a lot of eyeballs, both inside the Army and outside the Army.

Operator: Thank you. Our next question comes from Scot Ciccarelli of RBC Capital Markets. Your line is open.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC

Q

Good morning, guys. Scot Ciccarelli. Or Good afternoon. John, can you help reconcile something for me? When you previously talked about the potential for megadeals, you've commented that you can see kind of six to nine months down the road, just because it takes the vendor time to understand where the pricing has to go, including the merchandise. But, in theory, the process really should have started, call it, four, five, six months ago. And so, I guess, I would just think sooner than six, seven, eight months would kind of make sense. So can you help us kind of understand the timing of winning some of those deals and why it would manifest so much later?

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

I think the main part that we're seeing, Scot, is the delay of shipment that would have come into the states on the product that was canceled by another major retailer that they were not sure where it was going to go. So it's going to take time for it to play out. Like I said, there's no magic hard date, there's no science to it. Just a matter of how long they have to hold onto it. Their hope is that they're going to have another retailer potentially buy it at a higher price than we are. And what we – obviously, closeouts are closeouts and it's how the model works. So we expect they'll be out there to be had in short order.

And like I said, deal flow is strong. We're not starving, we're not looking for product, we're not out of product. So the deal flow is strong today and has been strong. We're getting new vendors that are great major manufacturers. So I don't want you guys to take away that we're not getting product and we're sitting here settling for non-A goods. So we're in very good position.

Our comps would indicate – and we're not – as you guys know, we're not a comp story. We're really a growth story. So seeing the comps we're able to deliver, which I call world-class comps and still continuing to be in the high teens is a pretty powerful message and the customers are still resonating with what we're offering versus what other retailers are selling in the market today.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC

Q

That's helpful. And then, it seems like there's a lot of retailers in kind of the hard line world, border line world that are chasing inventory. So can you help us understand where – at least so what some of the broad categories maybe or where you're seeing a lot of the strong deal flow because I guess it's just not fully intuitive, just given some of the shortages other retailers are also experiencing?

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

Yeah, I would tell you that you're not seeing – we're seeing excess in some categories you would not expect to see excess, which would be in the cough and flu and cough and cold area. We're definitely seeing excess in the housewares category, small electrics. That's still out there. Domestics bed and bath, we're seeing the excess come about.

Where is it a little leaner than we're normally used to seeing, I would probably call out the food category. The merchants having to work a little bit harder to get the product they're used to getting. The major manufacturers in the food category are not as full as they normally would be with short-dated product, which makes total logical sense with what happened with COVID.

And I think I even called out in last call that we expected to see a shortage in some of these categories. But all of the other categories, our merchants – and you guys know, we have a big team who has been doing this for a long time. They're sourcing the product. They're filling departments according to the open-to-buy. So we're not having issues with the deal flow.

Scot Ciccarelli
Analyst, RBC Capital Markets LLC

Q

Awesome. Thanks a lot, guys.

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

Thanks, Scot.

Jay Stasz
Senior Vice President & Chief Financial Officer, Ollie's Bargain Outlet Holdings, Inc.

A

Thanks, Scot.

Operator: Thank you. Our next question comes from Liz Suzuki of Bank of America. Your line is open.

Elizabeth L. Suzuki
Analyst, BofA Securities, Inc.

Q

Great. Thanks, guys. I guess, some economists are getting worried about a double-dip into a more normal recession or one that lasts longer than 30 days. Just in that environment, how do you think your business could perform? How would you adjust versus the current environment? And just how are you thinking about that as a possibility for the next 12 months?

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

Yeah, Liz, I would tell you, we're not recession-resistant – I mean, recession-proof we're definitely recession-resistant. Our models have been proven in good times and bad times. We performed well in both. So I think that a recession plays into our hand where people have – potentially have to trade down in the marketplace and come to more value, which they flock to in 2008, 2009. So we're ready and able to take on that additional velocity or volume, if you want to call it, if and when if that time does come and our model is perfectly placed for that.

Jay Stasz
Senior Vice President & Chief Financial Officer, Ollie's Bargain Outlet Holdings, Inc.

A

Yeah. And Liz, this is Jay. And just to add on, I mean, we're kind of demonstrating that nimbleness and the ability is certainly on the merchandise front for the buyers to go after and secure key product and key deals on a dynamic time. And if we did go in a double-dip recession, that would be more of the same. I think we'd be very well-positioned as a model in general to continue to do well.

Elizabeth L. Suzuki
Analyst, BofA Securities, Inc.

Q

Great. And just a follow up on holiday, I mean, how are you thinking about your approach this year given that shopping behavior does seem to be changing a bit? And if you think about those Ollie's Army members that you're converting from your new members that you've got or new customers that you've gotten in the last quarter, I guess by 4Q, how much do you think you could be getting in terms of new Ollie's Army membership on a year-over-year basis?

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

Liz, that's probably impossible for me to answer that because I don't know how the economy is going play out and the uncertainty that we're all dealing with in the marketplace. But, yeah, as Jay said, we're poised to take advantage of it and I think we'll be strong with our numbers and attracting new customers, and obviously motivating the existing Ollie's Army customer database, which as you guys know, accounts for more than 70% of our sales. So they're an integral part of our success. So that's what we'll continue to focus on.

I do think the holiday season is going to be much more stretched out than what typically has been. I think that they'll be – we'll be ready for. We'll be set early and ready to go. But I do think that there will be a little unique shopping patterns. Obviously, Black Friday will be a little different than what I think we normally see it at.

We're already internally talking about what we're going to do for Ollie's Army Night, which is typically on the second Sunday in December and it's for a four-hour period, which – with the way COVID is today, there's no way in the world we can have Ollie's Army Night and still follow CDC guidelines in our stores. So we're going to have to make some changes on that, and stretch out a little bit to make sure our stores are not too full, we can actually handle the customers and employees safely. So we're internally talking about that already today. So...

Operator: Thank you. Our next question comes from Edward Kelly of Wells Fargo. Your line is open.

Edward J. Kelly
Analyst, Wells Fargo Securities LLC

Q

Hi, guys. Good afternoon. Just a follow-up first on the Ollie's Army number. Is that a clean number? I know from time to time you guys have kind of like some clean-up stuff that gets done in that number. Just kind of curious, is that the best way to think about the number of new members year-over-year?

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

Yeah, Ed, that's a very clean number. And I think we had a hiccup two years ago or two-and-a-half years ago, and ever since that hiccup, we've been clean and very, very consistent on how we report the Ollie's Army active membership.

Edward J. Kelly
Analyst, Wells Fargo Securities LLC

Q

Great. And then if we think about back half comps, I mean, you're running high teens now with this stimulus and it's probably almost gone at this point. How do we think about the importance of stimulus to kind of maintaining a double-digit rate in the back half or is it more about just product cycle? I'm just kind of curious as to – you're thinking about things potentially slowing a bit. It doesn't really seem to be happening. But I'm just kind of curious as to how you're weighing the individual drivers of that?

Jay Stasz
Senior Vice President & Chief Financial Officer, Ollie's Bargain Outlet Holdings, Inc.

A

Yeah, this is Jay. And I'll start and John may chime in. But I mean, obviously, right, it's not something we can really forecast or attribute. I mean, like we said, we're running in the high teens now and in the commentary. We would expect that to slow. It's really hard to bifurcate all the components of it, whether it's the stimulus, whether it is people being in their home and wanting to get out and have some entertainment via shopping, whether it is people being home and wanting to spend money in the categories that we've got a lot of that complement them refreshing their home. So it's really hard to bifurcate all that.

I think the one thing that we talk about and are focused on is controlling what we can control, which is we've got new customers in the box, making sure they have a good experience, converting them to the Army, talking to them either via the Army or if not in other means, and engaging them and retaining those customers. That's what we can control. So we do expect it to slow, but again, we would – I think there'd be some level of tailwind theoretically from these new customers, but we're not in any position to forecast or quantify that.

Operator: Thank you. Our next question comes from Rick Nelson of Stephens. Your line is open.

Rick Nelson
Analyst, Stephens, Inc.

Q

Thanks, guys. Good afternoon. John, are you bringing any new buyers, any new merchandise categories? There appears to be a lot of availability in the apparel area. I know historically that's not been the focus of ours, but you have – done anything in trousers and apparels. Tell us about your interest in apparel.

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

Yeah, Rick, from the apparel standpoint, we probably have very little interest increasing the – I'll call it the fast fashion categories in the world of basics; socks, underwears, T-shirts, blue jeans, hunting gear, stuff like that. We're going to continue to stay in that category. But we do not expect or plan to expand our clothing department in any material fashion with regards to outerwear.

We'll leave those excess clothing deals for other ones who play in that field. If there's a deal that comes about that may be related to outerwear coats or something of that nature that's a one-off, we would definitely look at that, but we're not looking to expand the clothing department. And, in fact, right now I think our departments are all set pretty well in terms of where we want to be and we're not going to be adding any new categories to our arsenal today.

Rick Nelson
Analyst, Stephens, Inc.

Q

Okay. Thanks for that. Curious, too, if you could tell us up the real estate market, what you're seeing in terms of rents and quality of locations.

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

Yeah, Rick, we're definitely seeing a pretty good set of locations out there in the marketplace. It's pretty strong today. I think it's going to get stronger as retailers continue to have more and more difficulty to survive. The box size, we said before. Toys"R"Us had the perfect box size for us, but others, JCPenneys, the Kmarts, people are figuring out how to demise those and break those up. But we're getting our fair share of deals.

Rents are not really easing that much yet. I think as we said before, it takes time. But I think that we're definitely getting good deals for the real estate that we're acquiring. And I think we're poised to continue to grow at the right rate that we talked about in the past and our real estate team is very busy in each and every day scouring new locations for us.

Rick Nelson
Analyst, Stephens, Inc.

Q

Great. Thanks for the color and good luck.

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

Thanks, Rick.

Operator: Thank you. Our next question comes from Paul Lejuez of Citi Research. Your line is open.

Brandon Lee
Analyst, Citigroup Global Markets Singapore Pte Ltd.

Q

Hey, this is Brandon shooting on for Paul. Just if I could follow up on that real estate market opportunities that you're seeing. It doesn't sound like you're necessarily getting more favorable terms on new doors. Is the new store cadence of about 50, is that internal constraint or is that based on market opportunity? I mean, you mentioned JCPenney. Would you ever consider switching from off mall if the terms are favorable enough?

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

We're not a real big fan of malls. So a lot of the JCPenneys or the malls JCPenneys are in are either getting de-malled or they're closing out that section of the mall. There's no access to our buildings from the mall, so that – we have zero interest in being attached to a mall and having mall access into the stores. As you know, most malls are starting to die and they're changing them out. They're starting to make them more into strip centers by tearing out the metal in the gut.

So with regards to our constraints in terms of new store growth, our new store growth is constrained by our internal restrictions we put on ourselves. It's not a matter of availability. So there could be more sites available for us to collapse on. But we feel that 50 to 55 stores a year is the max. We want to do one per week would feel right with the complexity of our business and what we do.

And the main reason that there is a constraint on the overall real estate or new store growth, most people think it's inventory. It's really not inventory. It's the people side of the business. We really work hard to keep the culture of the business. It's difficult to run these stores. So we want to develop as many potential new store managers from an internal development perspective. So we moderate the store growth because of human capital.

Operator: Thank you. Our next question comes from Jeremy Hamblin of Craig-Hallum. Your line is open.

Jeremy Scott Hamblin
Analyst, Craig-Hallum Capital Group LLC

Q

Thanks and congrats on the impressive execution. I want to start just by clarifying something that you said, Jay, on the SG&A and you guys are getting more leverage obviously than normal. I think did you suggest that the kind of 24% of sale. Is that for the back half of the year is kind of the level you're thinking or is that specific to Q3?

Jay Stasz
Senior Vice President & Chief Financial Officer, Ollie's Bargain Outlet Holdings, Inc.

A

No. And that's a full year estimate based on kind of a base plan, which we know is outdated, actualize in Q1 and Q2, and then what our normal base plan would be for a full year, we'd be closer to 24%. And keep in mind, in Q4 last year, we had a lot of compensation pay that was reversed because of the performance. So that's a bit of a headwind at a normalized sales level. So...

Jeremy Scott Hamblin
Analyst, Craig-Hallum Capital Group LLC

Q

And to that point on...

Jay Stasz
Senior Vice President & Chief Financial Officer, Ollie's Bargain Outlet Holdings, Inc.

A

[indiscernible] (00:47:01)

Jeremy Scott Hamblin
Analyst, Craig-Hallum Capital Group LLC

Q

...yeah, to that point on the pay, the comp pay, which I know was below typical in Q4. I'm assuming that you guys are tracking pretty well ahead of the beginning of the year plan, that you're likely to hit all those targets or most of them. Is that something now where you've kind of caught up and normalized where it's going to be for the year? That's part one of the question.

Part two would be, have you considered to the point about the Ollie's Army Night, whether or not you're – the operating hours that you typically would have in Q4, if that's going to be more or less than you would normally have?

Jay Stasz
Senior Vice President & Chief Financial Officer, Ollie's Bargain Outlet Holdings, Inc.

A

Yeah. From a compensation standpoint in the bonus this year, I mean, you're right. We're tracking well ahead of plan and we've accrued to that as we've gone now. So, we've got that contemplated in the actual numbers in, we've got it forecast forward. But we're well ahead, as you say, but the 24% on a full-year basis would contemplate that.

And then the operating hours, I'll lot John chime in.

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

Yeah, Jeremy, with regards to the operating hours, I think during the fourth quarter, we will definitely plan to keep our hours as we have historically. We opened up at 8:00 in the morning. We're open until 10:00, I think giving the shopper more, obviously, since we have no e-com and our platform is in the box, in the four walls and it's a busy time of year. The more hours we give the consumer the opportunity to shop, the more spread out they will be. So I think shortening up the hours would be problematic and I don't think we need to make any longer than what we have.

So I think we're poised right. I do think as I mentioned earlier, the Ollie's Army Night will definitely have to be changed and spread out over a longer period of time, so we don't have so much compression in the stores and have issues from a safety perspective. So that's definitely in the works and something we're probably going to be changing.

Jeremy Scott Hamblin
Analyst, Craig-Hallum Capital Group LLC

Q

Okay, great. And then last question actually is on your balance sheet and not the inventories, but your cash levels are just extraordinarily high. I know that you would have some usage of that for working capital here in Q3 and then build towards holiday. But typically you exit with a level that's kind of at or maybe slightly above what you typically have at the end of Q2, which would project you at over $300 million to end the year. Have you given some thought? Is the board thinking about other alternatives for that kind of cash hoard that you're building? Any color you can share would be great.

Jay Stasz
Senior Vice President & Chief Financial Officer, Ollie's Bargain Outlet Holdings, Inc.

A

Yeah. Sure, Jeremy. This is Jay. And absolutely the board and John and I are talking about it. And our position currently is we're going to maintain that cash balance and be conservative until we get through the pandemic. We think that makes sense. I mean, there is going to be deals to come in the future. So we want to make sure that we've got the liquidity to go after that aggressively. So we're going to let the pandemic settle out, maybe that's six months, maybe that's longer. But then when the time is right, obviously, we will talk to the board and we will work together to return that cash to the shareholder in the best way possible.

Jeremy Scott Hamblin
Analyst, Craig-Hallum Capital Group LLC

Q

Great. Thanks for taking the questions, guys. Good luck.

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

A

Thanks, Jeremy.

Jay Stasz
Senior Vice President & Chief Financial Officer, Ollie's Bargain Outlet Holdings, Inc.

A

Thanks, Jeremy.

Operator: Thank you. I'm showing no further questions at this time. I would return the call back over to John Swygert for any closing remarks.

John W. Swygert
President, Chief Executive Officer & Director, Ollie's Bargain Outlet Holdings, Inc.

Thank you, operator. Thanks, everyone, for your participation and continued support. We look forward to sharing our third quarter results with you on our next earnings call.

Operator: Ladies and gentlemen, this does conclude today's conference. Thank you for participating. You may all disconnect. Have a great day.