

Tractor Supply Company

TSCO Bloomberg card data shows sequential improvement QTD

Maintain Rating: UNDERPERFORM | PO: 173.00 USD | Price: 252.40 USD

TSCO observed sales trends show improvement QTD

Bloomberg Second Measure credit and debit card shows observed sales for TSCO (95% correlated with reported comparable store sales) accelerated QTD in 1Q, in-line with our expectation for sequential comp improvement as TSCO called out a 400bps headwind to 4Q comps from weather. Observed sales have increased +5.3% QTD (through 2/25), vs. (2.8%) in 4Q (adjusted for the 53rd week impact) and +9.2% observed LY. The sequential increase was driven primarily by traffic as Average Transaction Value (ATV) remains negative. We attribute the acceleration to colder winter weather.

Expect deflationary pressures will hurt comps and EPS

Corn, soy, and chicken prices are a strong, three-quarter leading indicator for the inflation component of TSCO's comps with a correlation of 0.8. We are modeling a (1ppt) contribution from deflation to comps starting in 1Q24 given mid-teens average deflation in these commodities in 2023. We expect this deflation will benefit TSCO's gross margin percentage but hurt gross profit dollars.

Remain cautious near-term on weak industry backdrop

We maintain our Underperform rating given our near-term cautious outlook due to the comp pressure from lower commodity prices and SG&A deleverage. We continue to see feed price deflation hurting comps and EPS in 2024, and TSCO's customer is broadly under more economic pressure than the 2013/2014 deflationary cycle. Our PO primarily reflects cyclical concerns as we still see TSCO executing well over the long-term.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	9.71	10.09	9.59	9.87	10.58
EPS Change (YoY)	12.8%	3.9%	-5.0%	2.9%	7.2%
Consensus EPS (Bloomberg)			10.25	11.34	12.54
DPS	3.65	4.10	4.55	4.78	5.02
Valuation (Dec)					
P/E	26.0x	25.0x	26.3x	25.6x	23.9x
Dividend Yield	1.4%	1.6%	1.8%	1.9%	2.0%
EV / EBITDA*	16.3x	15.5x	15.7x	15.3x	14.4x
Free Cash Flow Yield*	2.1%	2.1%	2.4%	3.3%	3.5%

* For full definitions of *IQmethod*SM measures, see page 5.

04 March 2024

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Stock Data

Price	252.40 USD
Price Objective	173.00 USD
Date Established	1-Feb-2024
Investment Opinion	B-3-7
52-Week Range	185.00 USD - 255.65 USD
Mkt Val (mn) / Shares Out (mn)	27,288 USD / 108.1
Free Float	99.7%
Average Daily Value (mn)	328.19 USD
BofA Ticker / Exchange	TSCO / NAS
Bloomberg / Reuters	TSCO US / TSCO.OQ
ROE (2024E)	45.7%
Net Dbt to Eqty (Dec-2023A)	62.0%
ESGMeter TM	High

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Timestamp: 04 March 2024 01:57PM EST

iQprofileSM Tractor Supply Company

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	18.9%	17.5%	15.2%	15.1%	15.6%
Return on Equity	53.8%	52.8%	45.7%	42.8%	42.6%
Operating Margin	10.1%	10.2%	9.5%	9.3%	9.4%
Free Cash Flow	584	580	647	888	958

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.2x	1.5x	1.5x	1.4x
Asset Replacement Ratio	2.3x	1.9x	2.0x	1.4x	1.3x
Tax Rate	22.5%	22.7%	23.0%	23.0%	23.0%
Net Debt-to-Equity Ratio	47.1%	62.0%	65.2%	61.8%	61.8%
Interest Cover	46.8x	31.8x	26.4x	27.0x	28.6x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	14,205	14,556	14,730	15,275	16,023
% Change	11.6%	2.5%	1.2%	3.7%	4.9%
Gross Profit	4,972	5,228	5,337	5,534	5,805
% Change	11.1%	5.1%	2.1%	3.7%	4.9%
EBITDA	1,778	1,872	1,849	1,902	2,011
% Change	12.8%	5.3%	-1.2%	2.9%	5.7%
Net Interest & Other Income	(31)	(47)	(53)	(53)	(53)
Net Income (Adjusted)	1,089	1,107	1,035	1,058	1,124
% Change	9.2%	1.7%	-6.5%	2.3%	6.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,089	1,107	1,035	1,058	1,124
Depreciation & Amortization	343	393	452	475	498
Change in Working Capital	(182)	(181)	(10)	(55)	(75)
Deferred Taxation Charge	0	6	0	0	0
Other Adjustments, Net	108	9	58	59	61
Capital Expenditure	(773)	(754)	(888)	(650)	(650)
Free Cash Flow	584	580	647	888	958
% Change	14.4%	-0.6%	11.6%	37.2%	7.9%
Share / Issue Repurchase	(703)	(594)	(600)	(500)	(600)
Cost of Dividends Paid	(410)	(450)	(491)	(512)	(533)
Change in Debt	178	572	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	203	397	178	141	54
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	2,955	2,864	2,883	2,982	3,117
Property, Plant & Equipment	2,084	2,437	2,873	3,048	3,200
Other Non-Current Assets	3,249	3,455	3,455	3,455	3,455
Total Assets	8,490	9,154	9,389	9,626	9,826
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	2,376	2,177	2,185	2,229	2,290
Long-Term Debt	1,164	1,729	1,729	1,729	1,729
Other Non-Current Liabilities	185	198	198	198	198
Total Liabilities	6,448	7,006	7,015	7,059	7,119
Total Equity	2,042	2,150	2,377	2,570	2,709
Total Equity & Liabilities	8,490	9,156	9,392	9,629	9,828

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Retailing-Hardlines

Company Description

Tractor Supply (TSCO) is the largest domestic operator of retail farm and ranch stores, with annual revenues over \$15 billion. The company currently operates over 2,000 Tractor Supply stores, with a longer-term build-out to potentially 2,700+ Tractor Supply stores. It also has over 190 Petsense stores in its portfolio.

Investment Rationale

Tractor Supply (TSCO) is well positioned as the market leader in the farm & ranch store industry. It primarily sells needs-based products for the "out here lifestyle" and engenders strong customer loyalty. That said, we're concerned that the industry is going through a cyclical downturn with an added headwind from deflation. We expect TSCO will take share through this downturn, but not enough to offset industry headwinds.

Stock Data

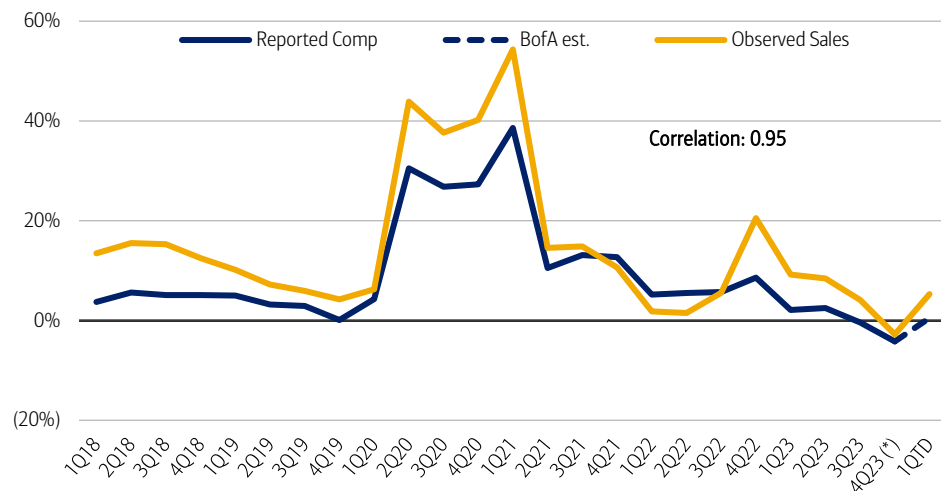
Average Daily Volume 1,300,262

Quarterly Earnings Estimates

	2023	2024
Q1	1.65A	1.58E
Q2	3.83A	3.76E
Q3	2.33A	2.08E
Q4	2.28A	2.18E

Exhibit 1: TSCO's observed sales have shown a sequential acceleration QTD, in-line with our forecast

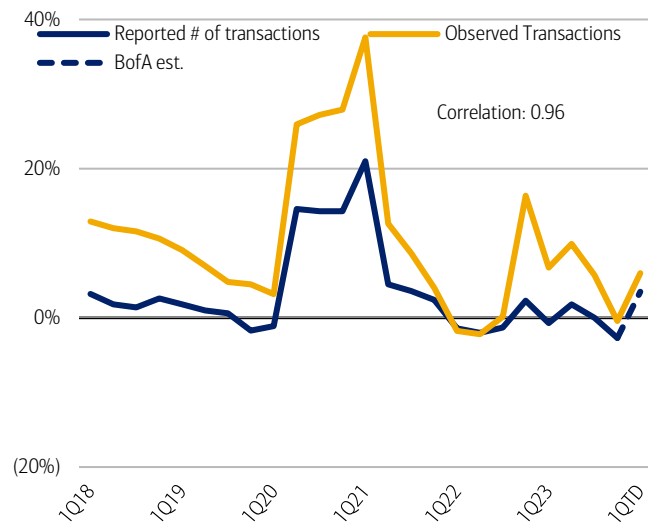
Bloomberg Second Measure credit and debit card data – Observed Sales

**Source:** Bloomberg Financial LP – ALTD <GO>, Company filings, BofA Global Research Estimates(*) Note: 4Q23 observed sales have been adjusted for the 53rd week and look at observed sales for the 14-week period ended 12/31/23 compared to the 14-week period ended 1/1/2023

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Exhibit 2: Observed transactions have shown sequential improvement QTD, in-line with our forecast

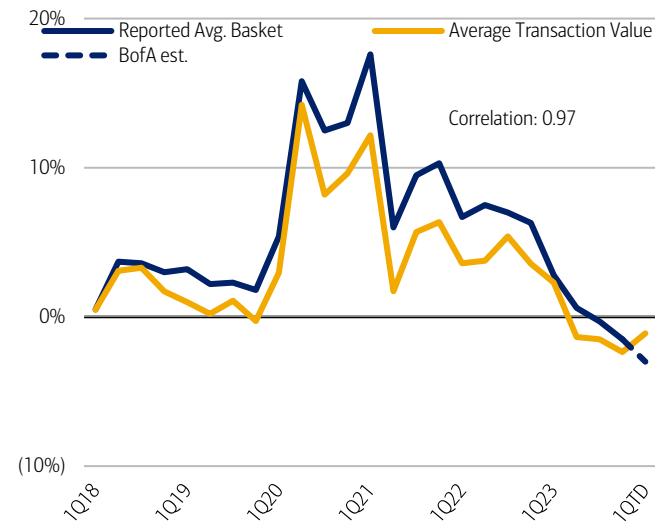
Bloomberg Second Measure credit & debit card data – Observed Transactions

**Source:** Bloomberg Financial LP – ALTD <GO>, Company filings, BofA Global Research EstimatesNote: 4Q23 observed sales have been adjusted for the 53rd week and look at observed sales for the 14-week period ended 12/31/23 compared to the 14-week period ended 1/1/2023

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Exhibit 3: ATV has improved sequentially QTD, but remains negative

Bloomberg Second Measure credit and debit card data – Average Transaction Value (ATV)

**Source:** Bloomberg Financial LP – ALTD <GO>, Company filings, BofA Global Research EstimatesNote: 4Q23 observed sales have been adjusted for the 53rd week and look at observed sales for the 14-week period ended 12/31/23 compared to the 14-week period ended 1/1/2023

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Price objective basis & risk

Tractor Supply Company (TSCO)

Our 12-month price objective of \$173 is based on a multiple of 18x our 2024E EPS which is just below the midpoint of the company's historical range (10x-30x). Although the company is well positioned in the farm & ranch store industry, we're concerned that soft discretionary demand and deflation will suppress earnings growth in the near-term.

Upside risks are: 1) significant economic improvement in TSCO's core rural markets, 2) stronger comp growth resulting in an improved operating margin outlook, 3) an acceleration of the company's store growth/side lot initiative above its current outlook, 4) price and gross margin inflation in TSCO's core product categories.

Downside risks are: 1) commodity deflation weighing on comps, 2) margin pressure from lower revenue and other cost pressures, 3) a slow-down in demand for discretionary rural lifestyle products, and 4) increased competition from mass merchants and online retailers in TSCO's core categories.

Analyst Certification

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	Boot Barn	BOOT	BOOT US	Jason Haas, CFA
	Driven Brands	DRVN	DRVN US	Jason Haas, CFA
	Five Below Inc.	FIVE	FIVE US	Jason Haas, CFA
	Floor and Decor Holdings, Inc.	FND	FND US	Robert F. Ohmes, CFA
	Genuine Parts	GPC	GPC US	Jason Haas, CFA
	Lowe's Companies, Inc.	LOW	LOW US	Robert F. Ohmes, CFA
	Mister Car Wash	MCW	MCW US	Jason Haas, CFA
	Ollie's	OLLI	OLLI US	Jason Haas, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Jason Haas, CFA
	Petco	WOOF	WOOF US	Jason Haas, CFA
	PROG Holdings Inc	PRG	PRG US	Jason Haas, CFA
	Rollins Inc.	ROL	ROL US	Jason Haas, CFA
	Tempur Sealy International Inc.	TPX	TPX US	Jason Haas, CFA
	The Home Depot, Inc.	HD	HD US	Robert F. Ohmes, CFA
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
NEUTRAL				
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	Sonos, Inc.	SONO	SONO US	Jason Haas, CFA
	Williams-Sonoma	WSM	WSM US	Jason Haas, CFA
UNDERPERFORM				
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	Best Buy Co., Inc.	BBY	BBY US	Robert F. Ohmes, CFA
	Snap-on	SNA	SNA US	Elizabeth L Suzuki
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA
	Whirlpool	WHR	WHR US	Jason Haas, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

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

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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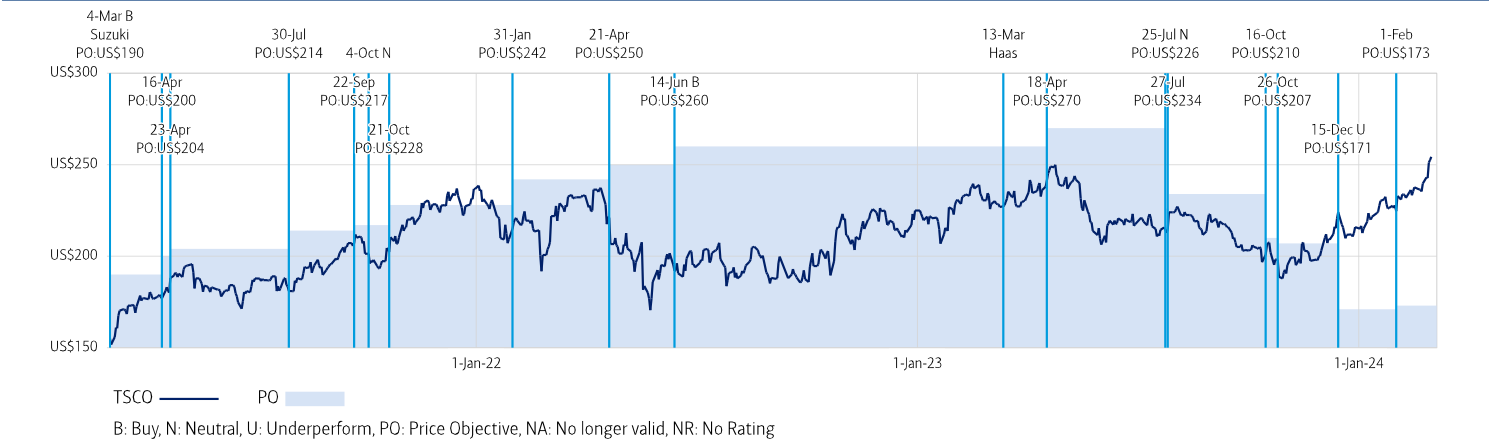
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Tractor Supply (TSCO) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
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