

Tractor Supply Company

4Q Preview: TSCO gets a last lift from cold weather before down-cycle

Reiterate Rating: UNDERPERFORM | PO: 171.00 USD | Price: 226.03 USD

Expect a weak 4Q but positive QTD commentary

Tractor Supply (TSCO) will report its 4Q results on February 1st. We're modeling 4Q EPS of \$2.22 on -4.2% comps vs. consensus \$2.23 on -4.2% comps. We recently downgraded TSCO from Neutral to Underperform given waning demand and deflationary pressures (see [TSCO downgrade to Underperform \(12/15/23\)](#)). We believe 4Q was an overall challenging quarter for TSCO and the industry broadly given warmer weather YoY, particularly in October and December. We saw elevated promotions over Black Friday and the holiday period. TSCO had an especially tough lap in late December given winter storms last year that helped 4Q22 comps by roughly 2ppt. That said, we suspect TSCO has had a very strong quarter-to-date (QTD) given much colder weather YoY.

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 inflation to comps in 4Q23 followed by -1ppt. 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.

3Q commentary gives initial parameters for 2024 guide

We're lowering our EPS estimates slightly given a softer than expected 4Q. We're now modeling \$9.48 of EPS in 2024 on -0.9% comps. That said, we expect mgmt. will guide aggressively, closer to the Street estimate of \$10.37 on 1.3% comps. Recall that on the 3Q call, mgmt. implied an outlook for 2024 that includes positive comps, op. margins within TSCO's long-term target (10.1-10.6%), and EPS growth.

Cautious in the near term, but long-term view unchanged

We maintain our Underperform rating and PO of \$171 based on 18x '24 P/E 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 2013/14 deflationary cycle. Our PO primarily reflects cyclical concerns as we still see TSCO executing well over the long-run and taking share in a worsening industry backdrop. Investor sentiment remains negative, but the stock looks overvalued at 24x our '24 EPS (22x Street '24 EPS).

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	8.61	9.71	10.03	9.48	9.75
EPS Change (YoY)	25.3%	12.8%	3.3%	-5.5%	2.8%
Consensus EPS (Bloomberg)			10.05	10.37	11.45
DPS	2.06	3.65	4.12	4.55	4.78
Valuation (Dec)					
P/E	26.5x	23.5x	22.8x	24.1x	23.4x
Dividend Yield	0.9%	1.6%	1.8%	2.0%	2.1%
EV / EBITDA*	16.5x	14.6x	13.9x	14.3x	13.9x
Free Cash Flow Yield*	2.1%	2.4%	3.4%	3.4%	3.5%

* For full definitions of *IQmethod*SM measures, see page 6.

25 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2023E Rev (m)	14,603.8	14,555.7
2024E Rev (m)	14,845.1	14,814.5
2025E Rev (m)	15,394.3	15,362.6
2023E EPS	10.07	10.03
2024E EPS	9.50	9.48
2025E EPS	9.77	9.75

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Stock Data

Price	226.03 USD
Price Objective	171.00 USD
Date Established	15-Dec-2023
Investment Opinion	B-3-7
52-Week Range	185.00 USD - 251.17 USD
Mrkt Val (mn) / Shares Out (mn)	24,437 USD / 108.1
Free Float	99.7%
Average Daily Value (mn)	303.90 USD
BofA Ticker / Exchange	TSCO / NAS
Bloomberg / Reuters	TSCO US / TSCO.OQ
ROE (2023E)	51.4%
Net Dbt to Eqty (Dec-2022A)	47.1%
ESGMeter TM	High

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

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Timestamp: 25 January 2024 05:00AM EST

iQprofileSM Tractor Supply Company

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	18.5%	18.9%	17.5%	15.4%	15.4%
Return on Equity	50.8%	53.8%	51.4%	44.9%	43.5%
Operating Margin	10.3%	10.1%	10.1%	9.3%	9.2%
Free Cash Flow	510	584	842	842	866

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.1x	1.2x	1.5x	1.5x	1.4x
Asset Replacement Ratio	2.3x	2.3x	2.1x	1.5x	1.4x
Tax Rate	22.1%	22.5%	22.7%	23.0%	23.0%
Net Debt-to-Equity Ratio	5.4%	47.1%	47.7%	53.1%	51.8%
Interest Cover	49.1x	46.8x	31.4x	28.0x	28.6x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	12,731	14,205	14,556	14,815	15,363
% Change	19.9%	11.6%	2.5%	1.8%	3.7%
Gross Profit	4,477	4,972	5,216	5,294	5,489
% Change	19.0%	11.1%	4.9%	1.5%	3.7%
EBITDA	1,577	1,778	1,866	1,815	1,867
% Change	22.4%	12.8%	5.0%	-2.7%	2.9%
Net Interest & Other Income	(27)	(31)	(47)	(49)	(49)
Net Income (Adjusted)	997	1,089	1,102	1,027	1,051
% Change	23.7%	9.2%	1.2%	-6.8%	2.3%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	997	1,089	1,102	1,027	1,051
Depreciation & Amortization	270	343	394	431	453
Change in Working Capital	(209)	(182)	116	(23)	(45)
Deferred Taxation Charge	29	0	0	0	0
Other Adjustments, Net	52	108	55	56	57
Capital Expenditure	(628)	(773)	(825)	(650)	(650)
Free Cash Flow	510	584	842	842	866
% Change	-53.6%	14.4%	44.3%	0%	2.9%
Share / Issue Repurchase	(732)	(703)	(586)	(600)	(500)
Cost of Dividends Paid	(239)	(410)	(453)	(493)	(515)
Change in Debt	0	178	572	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	878	203	665	501	439
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	2,355	2,955	2,856	2,906	3,005
Property, Plant & Equipment	1,618	2,084	2,515	2,733	2,931
Other Non-Current Assets	2,899	3,249	3,249	3,249	3,249
Total Assets	7,750	8,490	9,284	9,389	9,623
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	2,065	2,376	2,392	2,420	2,473
Long-Term Debt	986	1,164	1,736	1,736	1,736
Other Non-Current Liabilities	139	185	185	185	185
Total Liabilities	5,765	6,448	7,036	7,063	7,117
Total Equity	2,003	2,042	2,248	2,326	2,506
Total Equity & Liabilities	7,767	8,490	9,284	9,389	9,623

* For full definitions of iQmethodSM measures, see page 6.

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

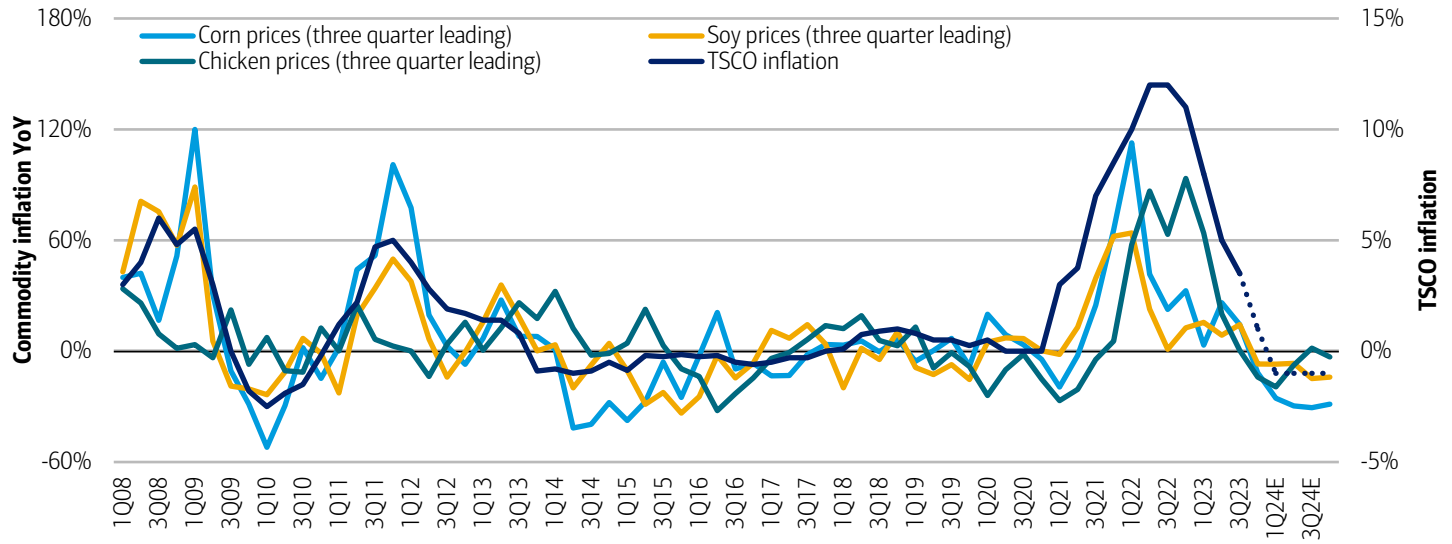
Average Daily Volume 1,344,523

Quarterly Earnings Estimates

	2022	2023
Q1	1.65A	1.65A
Q2	3.53A	3.83A
Q3	2.10A	2.33A
Q4	2.43A	2.22E

Exhibit 1: Corn, soy, and chicken prices (three quarter leading) vs. TSCO retail price inflation (0.8 correlation)

Corn, soy, and chicken prices declined 14.6% YoY on average in 4Q23.

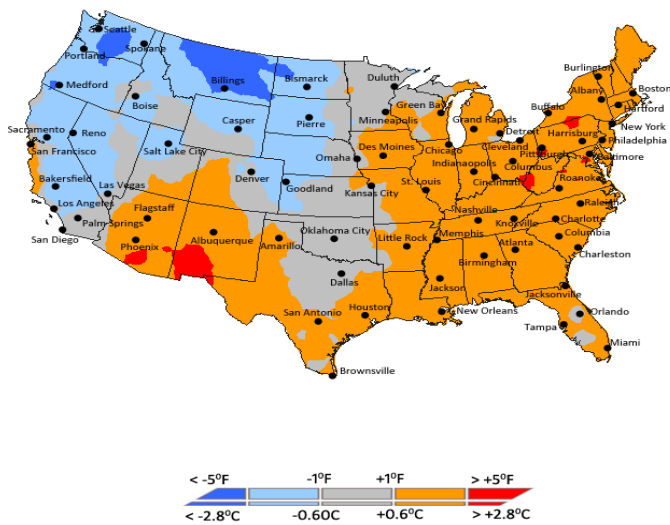


Source: Bloomberg, company reports

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Exhibit 2: October mean temperature YoY

The map shows warmer temperatures in the South, East, and Midwest

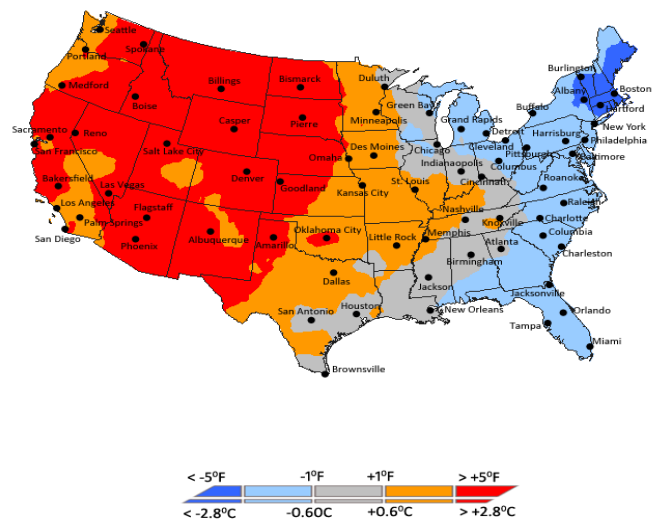


Source: Weather Trends International

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Exhibit 3: November mean temperature YoY

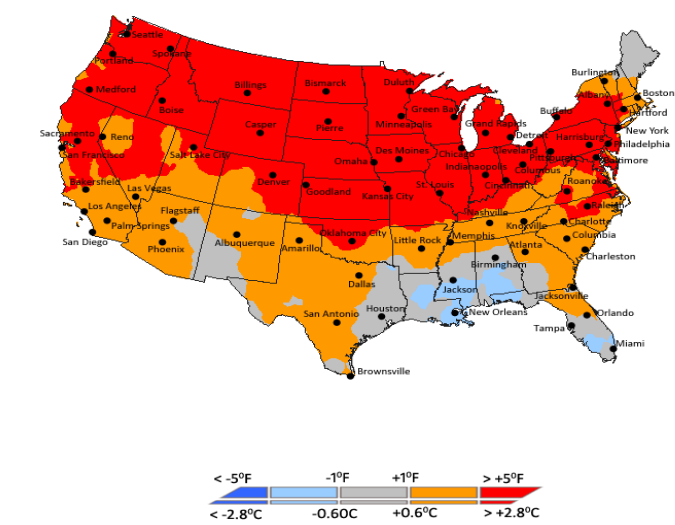
The map shows cooler temperatures in the East and Midwest



Source: Weather Trends International

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Exhibit 4: December mean temperature YoY
The map shows warmer temperatures across the US



Source: Weather Trends International

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Price objective basis & risk

Tractor Supply Company (TSCO)

Our 12-month price objective of \$171 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

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

US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Arhaus, Inc	ARHS	ARHS US	Jason Haas, CFA
	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	Elizabeth L Suzuki
	Mattel	MAT	MAT US	Jason Haas, 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	Elizabeth L Suzuki
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
NEUTRAL				
	AutoZone Inc.	AZO	AZO US	Jason Haas, CFA
	Hasbro	HAS	HAS US	Jason Haas, CFA
	Sonos, Inc.	SONO	SONO US	Jason Haas, CFA
	Williams-Sonoma	WSM	WSM US	Jason Haas, CFA
UNDERPERFORM				
	Advance Auto Parts, Inc.	AAP	AAP US	Jason Haas, CFA
	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

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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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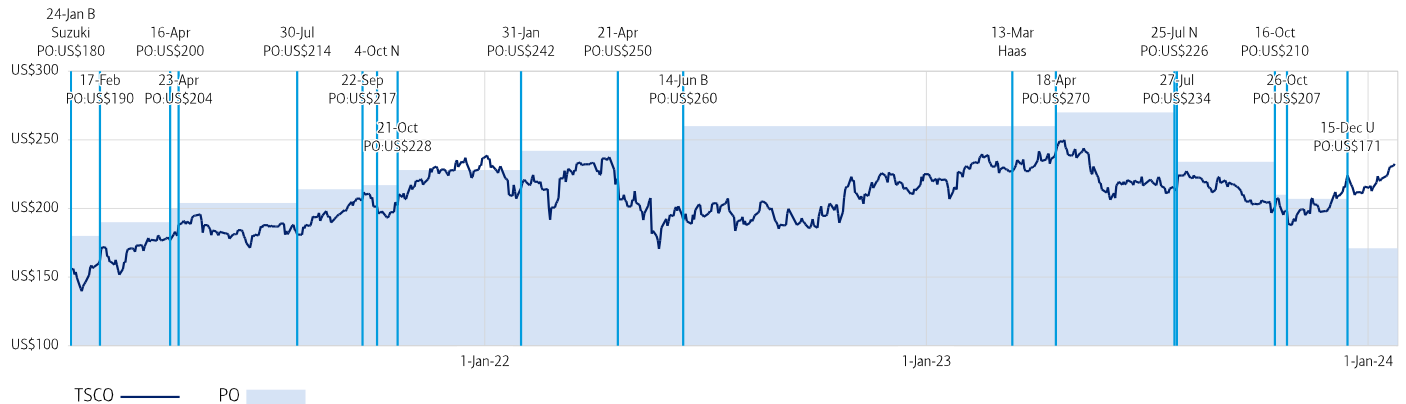
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Disclosures

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Tractor Supply (TSCO) Price Chart



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

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

Equity Investment Rating Distribution: Retailing Group (as of 31 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%

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

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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