

## Tractor Supply Company

## 4Q Recap: Comp pressure and weakness in discretionary categories continues

Reiterate Rating: UNDERPERFORM | PO: 173.00 USD | Price: 234.90 USD

## Results mostly in-line with expectations

TSCO reported -4.2% comp in 4Q (vs. -4.3% consensus) and cited weakness across cold weather products, discretionary categories and big ticket items. 4Q EPS was \$2.28 compared to \$2.23 consensus and \$2.22 BofAe. We recently downgraded TSCO from Neutral to Underperform given waning demand and deflationary pressures (see [TSCO downgrade to Underperform \(12/15/23\)](#)). Transactions declined 2.7% and average ticket declined 1.5%. 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. 4Q was an overall challenging quarter for TSCO and the industry broadly given warmer weather YoY, particularly in December. TSCO called out a 400bp headwind to 4Q comps from weather.

## Strong start to 1Q but 2024 comps below LT algo

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. During the 4Q call, TSCO provided full-year guidance. The company expects revenue to be between \$14.7bn to \$15.1bn and EPS to be between \$9.85 to \$10.50 (-2.4% to +4.1% YoY) with op. margins 9.7-10.1%. Comp guidance is (1.0%)-1.5%. TSCO expects to open 80 new stores and 10-15 new Petsense stores and to complete its 10<sup>th</sup> distribution center. TSCO sees good momentum in January and expects a positive comp for 1Q24.

## Remain cautious near-term on weak industry backdrop

Given the 2024 outlook, we are raising our 2024/2025/2026 EPS slightly. Given our higher estimates, we're raising our PO slightly from \$171 to \$173 still based on 18x '24 P/E which is within the company's historical range (10x-30x). We reiterate 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 2013/14 deflationary cycle. Our PO primarily reflects cyclical concerns as we still see TSCO executing well over the long-run.

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)			10.36	11.44	12.75
DPS	3.65	4.10	4.55	4.78	5.02
Valuation (Dec)					
P/E	24.2x	23.3x	24.5x	23.8x	22.2x
Dividend Yield	1.6%	1.7%	1.9%	2.0%	2.1%
EV / EBITDA*	15.3x	14.5x	14.7x	14.3x	13.5x
Free Cash Flow Yield*	2.3%	2.3%	2.5%	3.5%	3.8%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 4.

01 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	171.00	173.00
2024E Rev (m)	14,814.5	14,729.7
2025E Rev (m)	15,362.6	15,274.7
2026E Rev (m)	16,115.4	16,023.2
2024E EPS	9.48	9.59
2025E EPS	9.75	9.87
2026E EPS	10.44	10.58

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## Stock Data

Price	234.90 USD
Price Objective	173.00 USD
Date Established	1-Feb-2024
Investment Opinion	B-3-7
52-Week Range	185.00 USD - 251.17 USD
Mrkt Val (mn) / Shares Out (mn)	25,396 USD / 108.1
Free Float	99.7%
Average Daily Value (mn)	316.78 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 <sup>TM</sup>	High

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Timestamp: 01 February 2024 05:54PM EST

# iQprofile<sup>SM</sup> Tractor Supply Company

## iQmethod<sup>SM</sup> – 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

## iQmethod<sup>SM</sup> – 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)
<b>Net Income (Adjusted)</b>	<b>1,089</b>	<b>1,107</b>	<b>1,035</b>	<b>1,058</b>	<b>1,124</b>
<b>% Change</b>	<b>9.2%</b>	<b>1.7%</b>	<b>-6.5%</b>	<b>2.3%</b>	<b>6.2%</b>

## 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)
<b>Free Cash Flow</b>	<b>584</b>	<b>580</b>	<b>647</b>	<b>888</b>	<b>958</b>
<b>% Change</b>	<b>14.4%</b>	<b>-0.6%</b>	<b>11.6%</b>	<b>37.2%</b>	<b>7.9%</b>
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
<b>Total Assets</b>	<b>8,490</b>	<b>9,154</b>	<b>9,389</b>	<b>9,626</b>	<b>9,826</b>
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
<b>Total Liabilities</b>	<b>6,448</b>	<b>7,006</b>	<b>7,015</b>	<b>7,059</b>	<b>7,119</b>
<b>Total Equity</b>	<b>2,042</b>	<b>2,150</b>	<b>2,377</b>	<b>2,570</b>	<b>2,709</b>
<b>Total Equity &amp; Liabilities</b>	<b>8,490</b>	<b>9,156</b>	<b>9,392</b>	<b>9,629</b>	<b>9,828</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## 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 1,348,557

## 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

## 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

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

### US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	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



## US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA
	Whirlpool	WHR	WHR US	Jason Haas, CFA

**iQmethod<sup>SM</sup> Measures Definitions**

<b>Business Performance</b>	<b>Numerator</b>	<b>Denominator</b>
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	$\text{Cash Flow From Operations} - \text{Total Capex}$	N/A
<b>Quality of Earnings</b>	<b>Numerator</b>	<b>Denominator</b>
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	$\text{Net Debt} = \text{Total Debt} - \text{Cash \& Equivalents}$	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>	<b>Numerator</b>	<b>Denominator</b>
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	$\text{Cash Flow From Operations} - \text{Total Capex}$	$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	$\text{Basic EBIT} + \text{Depreciation} + \text{Amortization}$

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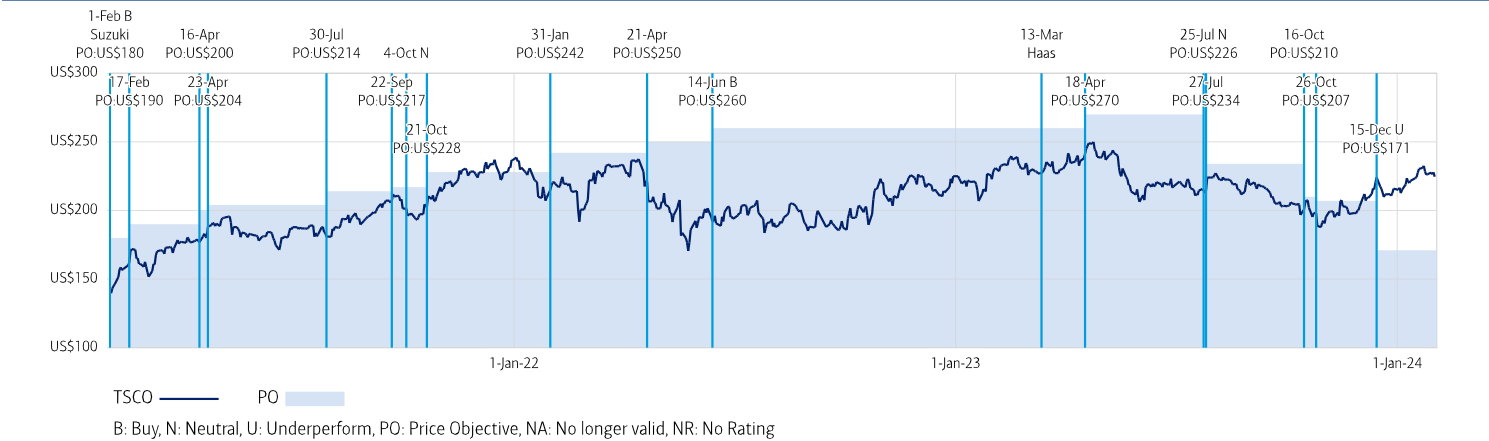
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Tractor Supply (TSCO) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

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

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
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<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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