January 11, 2018

Tractor Supply Company (TSCO)

Downgrading to NEUTRAL; Key Drivers Improving, but Margin Pressures Persist

Rating:
NEUTRAL (from OUTPERFORM)
Price:
$78.53
12-Month Price Target:
$80.00 (from $72.00)

Analysts

Seth Basham, CFA
212-938-9954
Seth.Basham@wedbush.com

Nathan Friedman
212-938-9955
Nathan.Friedman@wedbush.com

Jordan Flannery
212-668-9892
Jordan.Flannery@wedbush.com

Company Information

Shares Outst (M)	125.6
52-Week Range	$49.53 - $79.49
Market Cap (M)	$9,860.6
Cash/sh	$0.56
Enterprise Value (M)	$10,458
Tangible Book Value/sh	$10.15
Net Debt (M)	$247.15
Yield	0.01%

REV (M)			in $
FYE Dec	2016A	2017E	2018E
Q1 Mar	1,467.8A	1,564.1A	1,688.7E
Q2 Jun	1,852.5A	2,017.8A	2,147.1E
Q3 Sep	1,542.7A	1,721.7A	1,835.2E
Q4 Dec	1,916.5A	1,931.2E	2,054.0E
Previous		*1,895.4E*	*2,025.4E*
Year*	**6,779.6A**	**7,234.7E**	**7,724.9E**
Previous		*7,199.0E*	*7,696.3E*

EPS			in $
FYE Dec	2016A	2017E	2018E
Q1 Mar	0.50A	0.46A	0.59E
Previous			*0.53E*
Q2 Jun	1.16A	1.25A	1.60E
Previous			*1.36E*
Q3 Sep	0.67A	0.72A	0.85E
Previous			*0.75E*
Q4 Dec	0.94A	0.88E	1.04E
Previous		*0.85E*	*0.91E*
Year*	**3.27A**	**3.30E**	**4.08E**
Previous		*3.27E*	*3.54E*
P/E	24.0x	23.8x	19.2x

Pricing data provided by Thomson Reuters.
**Numbers may not add up due to rounding.*

The Wedbush View

Comp drags in recent years of weather, energy markets and deflation continue to lessen or inflect positively. Most notably, favorable weather conditions—colder than expected temperatures in November and December—likely drove strong sales in winter seasonal product categories including fuel, insulated outerwear and power equipment, leading us to boost our 4Q17 estimates above consensus. At the same time, while the weather forecast for 1Q18 looks favorable against easy comparisons, and company-specific drivers have legs, continued SG&A pressures including omnichannel spending may lead to initial implied 2018 operating margin guidance below consensus. At 20x 2018E EPS including estimated net tax reform benefits, TSCO appears fairly valued for ~11% long-term EPS growth, leading us to downgrade shares from OUTPERFORM to NEUTRAL but raise our price target to $80 (from $72).

Weather a nice boost for 4Q17, leading us to raise our estimates. Favorable weather conditions—colder than expected temperatures in November and December (see Figure 3)—likely drove strong sales in winter seasonal product categories including fuel, insulated outerwear and power equipment. Indeed, Planalytics, a weather-intelligence firm, reported strong weather-driven demand for the heating (+21% Nov; +5% Dec) and outerwear categories (+5% Nov; -1% Dec) despite lapping significantly tougher comparisons (see Figure 4). Based primarily on more favorable than expected weather, we are raising our 4Q comp estimate to 3.0% from 1.0% (vs. consensus 1.7%) and our EPS to $0.88 from $0.85 (vs. consensus $0.86).

Expect modest margin upside in 4Q with more limited seasonal markdowns and SG&A pressures. Cold weather in November and better than anticipated sales trends in December, despite the tougher comparison, should limit seasonal markdown pressure. We recall in 4Q16 that comps were strong (+3.1% or +3.8% calendar-adjusted), but gross margins declined 35 bps y/y in part due to higher promotions in an effort to drive traffic to stores. Given that December did not prove to be the headwind that it was expected to be, we estimate flat gross margins (in line with consensus). We expect modest contributions from TSCO's ongoing initiatives associated with price management and inventory management to be offset by increased freight and fulfillment expenses; other headwinds may include stronger performance in the CUE segment which operates at lower margins (an estimated ~400 bps) than other product segments. Given stronger sales, we now expect SG&A as a % of sales to come in at the low end of the company's 4Q guidance of 80-100 bps of y/y deleverage. The company continues to invest in labor hours to improve customer service levels and depreciation is growing at a rate faster rate than sales due to strategic investments in technology and supply chain investments. As well, incentive compensation is normalizing, pressuring SG&A.

Investment Overview

Weather, deflation and oil-economy cyclical pressures should continue to ease into 2018, boosting comps. Meanwhile, improvements in merchandising, omnichannel, a new loyalty program, extended aisle and in-store pickup, should also help comps. That said, we expect continued elevated investments weighing on margins. Excluding tax reform benefits and related reinvestments, we see potential for initial 2018 margin and EPS guidance to disappoint. Moreover, tax reform benefits appear mostly priced in.

Bear Case	Base Case	Bull Case
Comps trend sub-2% due to ongoing cyclical/secular pressures. Store growth algorithm slows & increased spending online drives margin compression. EPS growth slows to +LSD ex tax reform benefits	Comp headwinds mostly transitory and biz recovers as weather & cyclical pressures fade. Compet. from online channel, but initiatives drive share gains. EPS growth slips to +HSD ex tax reform benefits	Comps reaccelerate to 3%+ driven by in-store initiatives and normalizing weather. Long-term +LDD EPS growth algorithm ex tax reform benefits remains intact

Upcoming Catalysts

- Home improv. supplier/retailer reports
- Monthly home improvement retail sales

Primary Value Driver

- Reported comps
- Margin impacts y/y
- EPS growth

Valuation

Our $80 price target (from $72) is 20x our 2018 EPS estimate of $4.08 (up from $3.54).

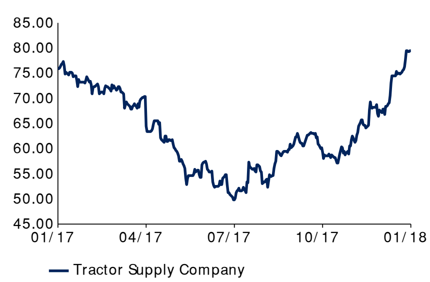
Investor Sentiment

Positive due to improving sales trends, easy comps and anticipated tax reform benefits. These factors overshadow increased spending on digital and online channel share shift concerns.

Company Description

Tractor Supply is the leading "rural lifestyle" retailer with 1,595 TSC and 143 Petsense locations in 2016 selling products such as pet/animal feed and care, tools/hardware, work clothing and truck/trailer supplies.

Price Performance



Source: EDI

WEDBUSH

Downgrading to NEUTRAL; Key Drivers Improving, but Margin Pressures Persist

The Wedbush View. Comp drags in recent years of weather, energy markets and deflation continue to lessen or inflect positively. Most notably, favorable weather conditions—colder than expected temperatures in November and December—likely drove strong sales in winter seasonal product categories including fuel, insulated outerwear and power equipment, leading us to boost our 4Q17 estimates above consensus. At the same time, while the weather forecast for 1Q18 looks favorable against easy comparisons, and company-specific drivers have legs, continued SG&A pressures including omnichannel spending may lead to initial implied 2018 operating margin guidance below consensus. At 20x 2018E EPS including estimated net tax reform benefits, TSCO appears fairly valued for ~11% long-term EPS growth, leading us to downgrade shares from OUTPERFORM to NEUTRAL but raise our price target to $80 (from $72).

Weather a nice boost for 4Q17, leading us to raise our estimates. Favorable weather conditions—colder than expected temperatures in November and December (see Figure 3)—likely drove strong sales in winter seasonal product categories including fuel, insulated outerwear and power equipment. Indeed, Planalytics, a weather-intelligence firm, reported strong weather-driven demand for the heating (+21% Nov; +5% Dec) and outerwear categories (+5% Nov; -1% Dec) despite lapping significantly tougher comparisons (see Figure 4). Based primarily on more favorable than expected weather, we are raising our 4Q comp estimate to 3.0% from 1.0% (vs. consensus 1.7%) and our EPS to $0.88 from $0.85 (vs. consensus $0.86).

Expect modest margin upside in 4Q with more limited seasonal markdowns and SG&A pressures. Cold weather in November and better than anticipated sales trends in December, despite the tougher comparison, should limit seasonal markdown pressure. We recall in 4Q16 that comps were strong (+3.1% or +3.8% calendar-adjusted), but gross margins declined 35 bps y/y in part due to higher promotions in an effort to drive traffic to stores. Given that December did not prove to be the headwind that it was expected to be, we estimate flat gross margins (in line with consensus). We expect modest contributions from TSCO's ongoing initiatives associated with price management and inventory management to be offset by increased freight and fulfillment expenses; other headwinds may include stronger performance in the CUE segment which operates at lower margins (an estimated ~400 bps) than other product segments. Given stronger sales, we now expect SG&A as a % of sales to come in at the low end of the company's 4Q guidance of 80-100 bps of y/y deleverage. The company continues to invest in labor hours to improve customer service levels and depreciation is growing at a rate faster rate than sales due to strategic investments in technology and supply chain investments. As well, incentive compensation is normalizing, pressuring SG&A.

Weather forecast for 1Q18 favorable. In 1Q18, TSCO will be lapping its easiest comp comparison for the year (-2.2%), driven primarily by unfavorable weather—very mild winter weather in January and February diminished demand for winter seasonal products, while unseasonably cold and snowy weather in March across various weather-sensitive regions diminished demand for spring seasonal products. *The Weather Channel* (TWC) forecasts 1Q temperatures to be slightly below average in the upper Midwest and parts of the Northeast, while the majority of the Mid-Atlantic, Southeast and parts of the Midwest and Lower Plains may experience temperatures above average; this forecast is relatively consistent on a month-by-month basis (see Figures 5-8). Should TWC's forecast for the next three months prove accurate, average temperatures in weather-sensitive regions we track would decline a sharp ~7^{o}F y/y in January and ~8^{o}F y/y in February, which would much more favorable for winter category sales. More importantly, March temperatures are currently forecasted to be flat y/y despite the 6^{o}F y/y temperature decline experienced in weather-sensitive regions in March 2017 (see Figure 9). Flattish temperatures coupled with easy comparisons, particularly in big ticket sales, should benefit TSCO comps, leaving us comfortable with our 1Q18 comps estimate of 4.0% vs. consensus 3.5%.

Initial margin guidance for 2018 may disappoint modestly; revising estimates. We anticipate 2018 annual comp guidance to be somewhat conservative and roughly in line with the initial guidance provided last year including 2-3% comps and EPS growth in the +MSD-HSD range (see Figure 20). Company-specific initiatives coupled with normalizing winter weather and easy comparisons through the key spring selling season point to a more favorable top-line outlook for 2018, with potential upside to our 2.5% comp estimate (vs. consensus 2.4%). That said, we see additional risk to margins in 2018 as TSCO continues to invest in technology-related and customer-centric initiatives, and faces other cost pressures including wage inflation and incentive compensation costs, leading us to reduce our estimates. Our underlying SG&A margins now stand 30 bps above consensus and our operating margins now stand 30 bps below consensus, leading us to reduce our underlying 2018 EPS estimate from $3.54 to $3.48.

Tax reform benefits likely partially reinvested. Assuming a 23% tax rate going forward (down from 36.5% in 2017E), EPS will rise ~20% all else equal, to $4.18. However, we anticipate that at least 15% of tax expense savings will be reinvested back into the business given even more significant reinvestment plans by home improvement peers such as HD and FND. Accordingly, our new 2018 EPS estimate is $4.08 (see Figure 1 and Figures 21-23 for more detail).

Figure 1: Summary of 2018 EPS Revision

Prior 2018 EPS Estimate	$	3.54
Increased spending in supply chain/freight		
Higher mix in online sales and CUE		
Incremental pre-opening/operating expenses from New York DC		
Higher incentive compensation		
Investments in digital initiatives		
Wage inflation		
New - Underlying (Ex Tax Reform)	$	3.48
Decreasing corporate tax rate to 23%		
New - Including Tax Reform	$	4.18
15% reinvestment of estimated tax reform benefits		
New 2018 EPS Estimate	$	4.08

Source: Company data, Wedbush Securities, Inc. estimates

TSCO big ticket comps bounced in 3Q to out-comp LOW, but we expect relative performance to weaken going forward. For the first time in nine quarters, TSCO out-comped one of the home centers (HD, LOW) in 3Q17 (see Figures 10-11). We believe a key reason for the improvement was favorable weather and stronger big ticket comps. Hurricane-related demand for items such as power generators fueled +HSD big ticket comps, the first positive performance since 2Q15 (see Figures 12-13). Although facing a tougher comparison in 4Q, we expect continued positive big ticket comps in 4Q17, driven by categories such as wood-burning fire places and log splitters. Cycling through pressure in gun safes should also help, as should improvement in discretionary demand in energy-centric markets. Nonetheless, we see more limited comp and big ticket comp drivers for TSCO than for the home centers. The home remodel cycle remains strong, with solid demand for growth in appliances, Pro sales and remodeling projects to which TSCO has little exposure relative to the home centers.

Pressures on pet category likely to grow from online, mass/grocery, with PetSmart recent results a sign. While TSCO's Pet and Livestock category remains strong, we see an increasing threat from the online and mass/grocery channels, and given the traffic-driving nature of this core CUE category, TSCO risks losing other (typically higher-margin) discretionary sales that accrue from the traffic. According to Packaged Facts, Internet sales accounted for 9% of the $48b U.S. market for pet products in 2016, and this likely increased to a LDD mix in 2017, led by outsized growth from AMZN. Internet sales continue to outpace and cannibalize sales from other channels, notably pet super stores like PetSmart. Indeed, according to One Click Retail, AMZN Pet Products category sales in the 12 month period ending September, 2017 increased 33% y/y to $2.2b; the Pet Food & Feeding Supplies sub-category sales increased 47% y/y to $970m. Also notable, PetSmart reported 30% y/y revenue growth in 3Q17 driven entirely by its ~$3b acquisition of Chewy.com, but revenue in its legacy business slipped by 1.5% and legacy business EBITDA declined 15% y/y; management also uncharacteristically refrained from guiding 4Q results. Additional challenges include pet suppliers' decision to shift to mass distribution as seen by Colgate-Palmolive (Science Diet) in 4Q16 and more recently, Blue Buffalo's decision to sell its premium pet food brand in the mass and grocery channel.

Company-specific initiatives on track. Benefits from sales-driving initiatives including buy-online-pickup-in-store (BOPIS) and its Neighbor's Club loyalty program should continue to rise. Approximately 75% of online orders were picked up at stores in 3Q (up from 55% in 2Q), signaling the importance of the bricks and mortar location. BOPIS average tickets remain significantly higher than the company average and customers usually buy 3.5 to 4 additional items when they come into the store to pick up an online order, driving sales that are ~2x the company's average ticket size. As well, TSCO's Neighbor's Club also continues to gain traction with over 5m members as of 3Q17, up from nearly 4m members in 2Q17. Members are receiving reward opportunities and personalized advertising based on transaction history, driving increases in comp transactions and basket sizes. Other sales-driving initiatives still being piloted include Mobile POS and Stockyard which help improve checkout speed and offer an "endless aisle" of merchandise.

Deflation to ease in 2018, as should comp drag from energy markets. While we forecast a continued drag from deflation this quarter (30 bps), we see potential for receding deflation and a possible inflection to positive in 2018 based on improving corn and Brent crude oil futures prices. Corn futures and oil futures historically correlate with TSCO inflation/deflation impacts on a three quarter lagged basis (corn 0.85; oil: 0.67) since 2009. Corn futures have remained flattish in recent months, decreasing -0.7% in 4Q17 (vs. 8.4% in 3Q), and oil futures increased a sharp 20.4% in 4Q17 (vs. 11.1% in 3Q) (see Figures 16-17).

Weather a Nice Boost for 4Q17, with Favorable Forecast for 1Q18

TSCO customers usually buy on a need-by-need basis and what weather they remember from the prior year. Despite an easy comparison through October/November, TSCO noted on its 3Q earnings call (10/25/17) that October started off warm, likely clipping demand. Colder weather started to materialize in November and continued through December, with average daily temperatures in weather-sensitive regions in both months trending 3.9°F colder y/y (see Figure 2). The December y/y decline was greater than expected, coming on top of a 9.5°F y/y decline in December 2016 (see Figure 3), which lifted sales in heating fuel, insulated outerwear and power equipment categories and contributed to a strong 3.8% calendar-adjusted comp in 4Q16 (3.1% reported). Favorable weather in 4Q17 leads us to raise our comp estimate to 3.0% from 1.0% (vs. consensus 1.7%).

According to Planalytics, a weather intelligence firm, national weather-driven demand in categories such as heating and outerwear has been strong recently. Weather-driven demand for heating products across the country increased 3% in October (vs. +6% in Oct 2016) and increased a strong 21% in November (vs. -1% in Nov 2016); demand also increased 5% in December despite lapping a significant +47% in December 2016, suggesting continued strong sales. Weather-driven demand for outerwear increased 2% in October (vs. +6% in Oct 2016), increased 5% in November (vs. 0% in Nov 2016), but declined -1% in December (vs. +5% in Dec 2016) (see Figure 4).

Figure 2: Weather Is an Important Variable in Demand and TSCO Comps

	Average Daily Temperature Y/Y Change (°F)				**Average Daily Precipitation Y/Y Change (in)**				**TSCO Calendar / Inflation-Adjusted Comps**	**Notes:**
	Oct	Nov	Dec	**Qtr Avg**	Oct	Nov	Dec	**Qtr Avg**		
4Q11	-1.5	2.9	11.6	**4.3**	0.03	-0.01	0.06	**0.03**	2.1%	Cool Oct helped drive early winter season demand but mild Nov/Dec and limited precip in Midwest/North hurt; inflation and extra day contributed ~600 bps to comps
4Q12	0.0	-4.9	0.1	**-1.6**	-0.03	-0.06	-0.02	**-0.04**	3.1%	Warmer weather y/y across most of country weighed on comps, with partial offset from relative strength in South due to favorable ground moisture levels
4Q13	1.8	-1.2	-6.1	**-1.8**	0.03	0.05	0.04	**0.04**	4.4%	Colder weather y/y (especially in Dec) drove strong winter merchandise sales
4Q14	-0.1	-1.3	4.4	**1.0**	0.03	0.03	-0.03	**0.01**	5.8%	Cold weather early in quarter initiated early winter season demand that persisted through quarter despite tough Dec comparison
4Q15	0.0	9.4	8.5	**6.0**	0.04	0.11	0.00	**0.05**	-1.3%	El Nino effects unfavorable; heating (stoves/fuel), installed outerwear and seasonal big ticket items in Northeast/Midwest negatively impacted comps by 400 bps
4Q16	1.7	-1.4	-9.5	**-3.1**	-0.09	-0.12	-0.04	**-0.08**	4.4%	Unfavorable weather to start quarter; significantly colder y/y temperatures in December spiked winter seasonal sales; favorable exit rate
4Q17E	1.2	-3.9	-3.9	**-2.2**	0.08	-0.07	-0.01	**0.00**	3.3%	Unfavorable warm weather in Oct, but cold weather in November and repeated cold weather in December likely drove strong winter product demand

Source: Wunderground, Company data, Wedbush Securities, Inc. estimates

Note: Our estimated 4Q17 TSCO Calendar/Inflation-Adjusted Comp of 3.3% includes a 3.0% comp estimate with an estimated 30 bps of deflation.

Figure 3: Average Daily Temperatures Were Lower than Normal and Declined 3.9°F in November and December in Weather-Sensitive Regions…

Avg. Daily Temperatue °F						
City	**Oct-16**	**Nov-16**	**Dec-16**	**Oct-17**	**Nov-17**	**Dec-17**
New York City, NY	58.9	49.8	38.3	64.5	46.9	35.3
Atlanta, GA	66.9	56.1	47.7	64.1	54.6	45.8
Chicago, IL	57.1	47.1	34.2	57.8	39.9	27.4
Average	**61.0**	**51.0**	**40.1**	**62.1**	**47.1**	**36.2**
Long-Term Average ("Normal")	58.1	48.3	38.2	58.1	48.3	38.2
Delta vs. Long-Term Avg.	**2.9**	**2.7**	**1.9**	**4.0**	**(1.2)**	**(2.0)**

Avg. Daily Temperature °F Y/Y Change						
City	**Oct-16**	**Nov-16**	**Dec-16**	**Oct-17**	**Nov-17**	**Dec-17**
New York City, NY	0.6	(3.1)	(12.8)	5.5	(2.9)	(3.0)
Atlanta, GA	4.1	(0.5)	(8.4)	(2.8)	(1.6)	(1.9)
Chicago, IL	0.3	(0.5)	(7.2)	0.7	(7.2)	(6.8)
Average	**1.7**	**(1.4)**	**(9.5)**	**1.2**	**(3.9)**	**(3.9)**

Source: The Weather Channel, Wunderground, Weatherbase, Wedbush Securities, Inc.

Figure 4: …Likely Boosting Demand in Key Winter Seasonal Products Including Heating and Outerwear

	Heating Retail Category Weather-Driven Demand, Y/Y Change								
Month Ended	**Total**	East North Central	North East	North West	South Central	South East	South West	South West Coast	West North Central
October	3%	2%	-4%	2%	31%	10%	34%	-13%	6%
November	21%	39%	14%	47%	16%	20%	22%	7%	44%
December	5%	7%	11%	-11%	21%	17%	-6%	-14%	4%

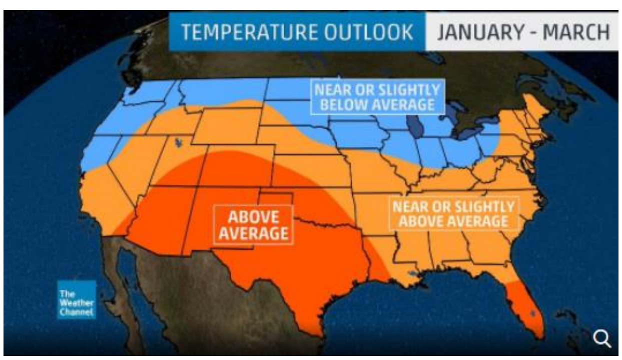
	Outerwear Retail Category Weather-Driven Demand, Y/Y Change								
Month Ended	**Total**	East North Central	North East	North West	South Central	South East	South West	South West Coast	West North Central
October	2%	1%	-5%	-1%	17%	6%	16%	0%	6%
November	5%	9%	4%	6%	10%	6%	2%	1%	10%
December	-1%	0%	2%	-2%	1%	4%	-2%	-11%	0%

Source: Planalytics, Wedbush Securities, Inc.

In 1Q18, TSCO will be lapping its easiest comp comparison for the year (-2.2%), driven primarily by unfavorable weather—very mild winter weather in January and February diminished demand for winter seasonal products, while unseasonably cold and snowy weather in March across various weather-sensitive regions diminished demand for spring seasonal products. *The Weather Channel* (TWC) forecasts 1Q temperatures to be slightly below average in the upper Midwest and parts of the Northeast, while the majority of the Mid-Atlantic, Southeast and parts of the Midwest and Lower Plains may experience temperatures above average; this forecast is relatively consistent on a month-by-month basis (see Figures 5-8). Should TWC's forecast for the next three months prove accurate, average temperatures in weather-sensitive regions we track would decline a sharp ~7ºF y/y in January and ~8ºF y/y in February, which would much more favorable for winter category sales. More importantly, March temperatures are currently forecasted to be flat y/y despite the 6ºF y/y temperature decline experienced in weather-sensitive regions in March 2017 (see Figure 9). Flattish temperatures coupled with easy comparisons, particularly in big ticket sales, should benefit TSCO comps, leaving us comfortable with our 1Q18 comps estimate of 4.0% vs. consensus 3.5%.

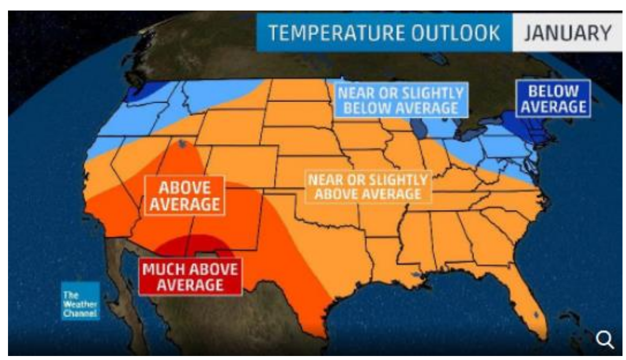
The largest weather catalyst of the quarter hinges on the timing of the spring season in March. TWC forecasts above-average temperatures in March in weather-sensitive regions, about in line with those last year. Flattish temperatures y/y would likely be positive for spring seasonal products (e.g., lawn and garden, riding lawn mowers, trailers, fly control) relative to last year, when temperatures declined ~6ºF y/y in March. We also note that a -HSD decline in big-ticket comps was a primary driver behind comp weakness in 1Q17, primarily due to both the tough comparison in March spring seasonal sales in the prior year period (big-ticket demand was flat to slightly positive excluding the comparison headwind), but also uncooperative weather. Given the substantially easier comparisons, big-ticket sales may increase in March even if temperatures were to decline modestly y/y that month.

Figure 5: *The Weather Channel* Forecasts Temperatures to Be Above Average across the Majority of the Country in Calendar 1Q18…



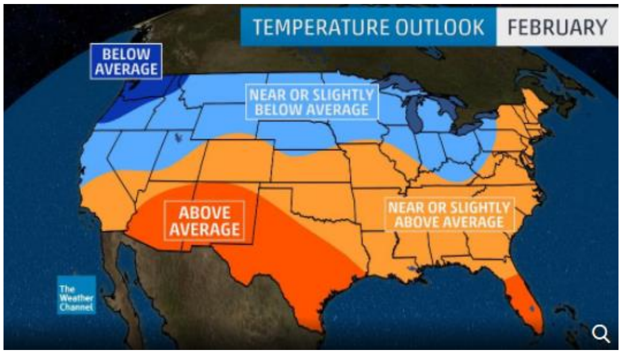
Source: The Weather Channel, Wedbush Securities, Inc.

Figure 6: …Including Temperatures Near or Slightly Above Average in Most Weather-Sensitive Regions in January…



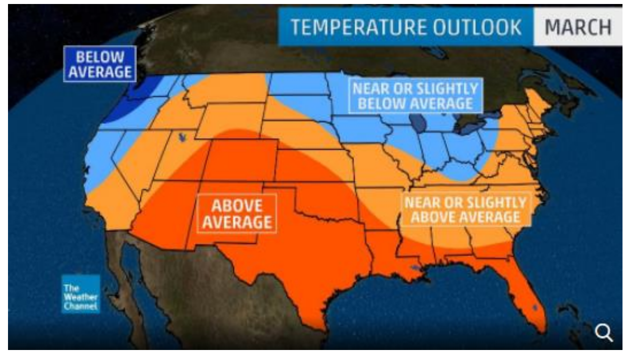
Source: The Weather Channel, Wedbush Securities, Inc.

Figure 7: …A Slightly Colder Outlook in these Regions in February…



Source: The Weather Channel, Wedbush Securities, Inc.

Figure 8: …And a Slightly Warmer Outlook in these Regions in March



Source: The Weather Channel, Wedbush Securities, Inc.

Figure 9: Temperatures in Weather-Sensitive Regions Will Decline Y/Y in January and February (Favorable for TSCO), but Will Remain Flat in March (Negative for TSCO) Should Forecasts Prove Accurate

Avg. Daily Temperatue ºF						
City	**Jan-17**	**Feb-17**	**Mar-17**	**Jan-18**	**Feb-18**	**Mar-18**
New York City, NY	38.2	41.9	39.4	30.9	36.3	43.2
Atlanta, GA	51.5	55.3	56.3	44.3	48.2	55.3
Chicago, IL	28.6	38.3	39.6	23.8	26.7	36.9
Average	**39.5**	**45.2**	**45.1**	**33.0**	**37.1**	**45.1**
Long-Term Average ("Normal")	32.9	35.3	42.2	32.9	35.3	42.2
Delta vs. Long-Term Avg.	**6.6**	**9.9**	**2.9**	**0.1**	**1.8**	**2.9**

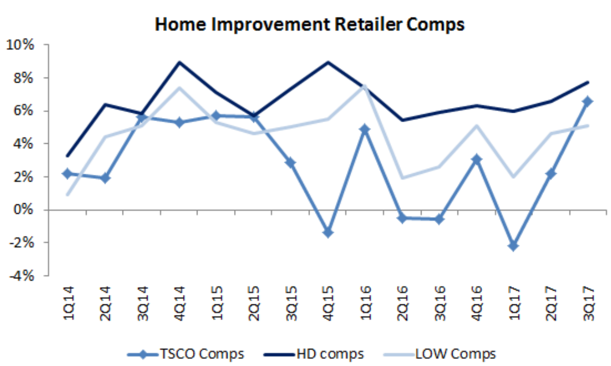
Avg. Daily Temperature ºF Y/Y Change						
City	**Jan-17**	**Feb-17**	**Mar-17**	**Jan-18**	**Feb-18**	**Mar-18**
New York City, NY	3.5	4.0	(9.7)	(7.3)	(5.6)	3.8
Atlanta, GA	9.9	8.4	(2.4)	(7.2)	(7.1)	(1.0)
Chicago, IL	1.1	5.5	(5.9)	(4.8)	(11.6)	(2.7)
Average	**4.9**	**6.0**	**(6.0)**	**(6.5)**	**(8.1)**	**0.0**

Source: The Weather Channel, Wunderground, Weatherbase, Wedbush Securities, Inc. estimates

TSCO Big Ticket Comps Bounced in 3Q to Out-comp LOW, but We Expect Relative Performance to Weaken Going Forward

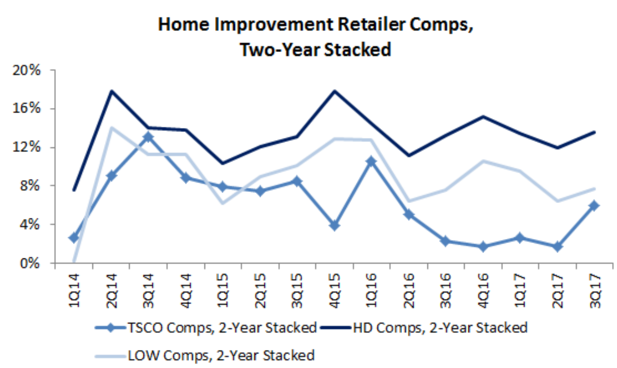
For the first time in nine quarters, TSCO out-comped one of the home centers (HD, LOW) in 3Q17 (see Figures 10-11). We believe a key reason for the improvement was favorable weather and stronger big ticket comps. Hurricane-related demand for items such as power generators fueled +HSD big ticket comps, the first positive performance since 2Q15 (see Figures 12-13). Although facing a tougher comparison in 4Q, we expect continued positive big ticket comps in 4Q17, driven by categories such as wood-burning fire places and log splitters. Cycling through pressure in gun safes should also help, as should improvement in discretionary demand in energy-centric markets. Nonetheless, we see more limited comp and big ticket comp drivers for TSCO than for the home centers. The home remodel cycle remains strong, with solid demand for growth in appliances, Pro sales and remodeling projects to which TSCO has little exposure relative to the home centers.

Figure 10: TSCO Comps Have Largely Underperformed those of HD and LOW Since Mid-2015…



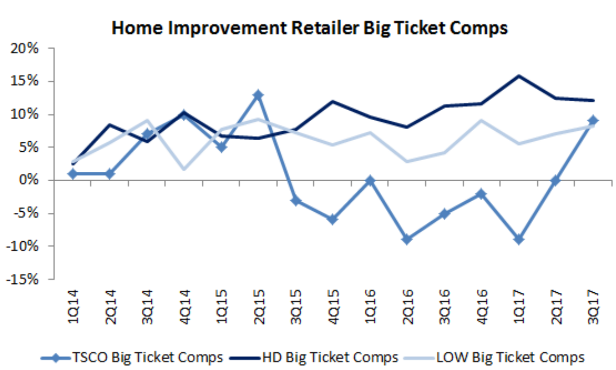
Source: Company data, Wedbush Securities, Inc.

Figure 11: …As Also Seen on a Two-Year Stacked Basis



Source: Company data, Wedbush Securities, Inc.

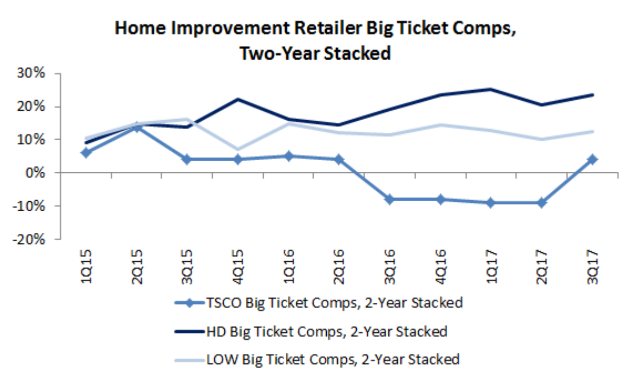
Figure 12: TSCO Comps Sequentially Improved in 3Q17, Improving Primarily due to Hurricane-Related Demand…



TSCO Big Ticket = $350+ (estimate)
HD Big Ticket = $900+; LOW Big Ticket = $500+

Source: Company data, Wedbush Securities, Inc.

Figure 13: …And Also Improved Sequentially on a Two-Year Stacked Basis



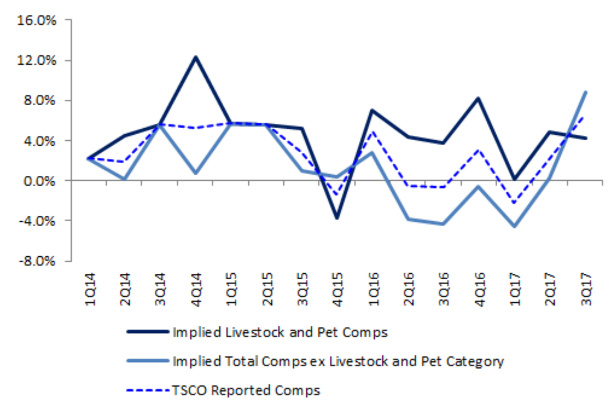
Source: Company data, Wedbush Securities, Inc.

WEDBUSH

Core Pet Category Remains in Focus

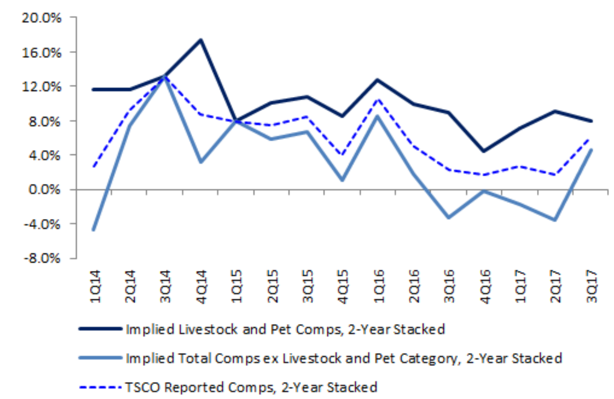
Pet category sales outperformance slipped in 3Q17 as rest of business improved. Pet and Livestock is TSCO's core category, accounting for ~48% of sales. Excluding the Petsense acquisition, category comps increased ~4% in 3Q17 vs. ~5% in 2Q and flattish in 1Q. While category growth was solid in 3Q17, we note that comps underperformed the reported total comp of 6.6%, implying that comps excluding Pet and Livestock were ~9%, driving a wide level of underperformance not experienced since 4Q15 (see Figures 14 and 15). Strong hurricane and weather-related demand likely boosted sales performance outside of the Pet and Livestock category in 3Q17, and weather may once again lead Pet and Livestock to underperform in 4Q17. In the face of increasing online and mass/grocery store competition, TSCO continues to fortify its pet offering with both channel-exclusive brands and proprietary brands. In 2017, in addition to extending the 4health proprietary brand in the pet food/animal category, TSCO launched an exclusive brand of premium dog and cat food in Petsense stores this month called TrueSource.

Figure 14: TSCO's Livestock and Pet Category Underperformed the Company's Other Categories in 3Q17…



Source: Company data, Wedbush Securities, Inc. estimates

Figure 15: …And the Category Decelerated Sequentially on a Two-Year Stacked Basis



Source: Company data, Wedbush Securities, Inc. estimates

Note: Implied category comps derived from the category sales mix, which includes the Petsense acquisition. We exclude estimated Petsense sales since acquisition in 4Q16 of ~$25m-$35m per quarter to calculate the implied comps.

Pressures on pet category likely to grow from online, mass/grocery, with PetSmart recent results a sign. While TSCO's Pet and Livestock category remains strong, we see an increasing threat from the online and mass/grocery channels, and given the traffic-driving nature of this core CUE category, TSCO risks losing other (typically higher-margin) discretionary sales that accrue from the traffic. According to Packaged Facts, Internet sales accounted for 9% of the $48b U.S. market for pet products in 2016, and this likely increased to a LDD mix in 2017, led by outsized growth from AMZN. Internet sales continue to outpace and cannibalize sales from other channels, notably pet super stores like PetSmart. Indeed, according to One Click Retail, AMZN Pet Products category sales in the 12 month period ending September, 2017 increased 33% y/y to $2.2b; the Pet Food & Feeding Supplies sub-category sales increased 47% y/y to $970m. Also notable, PetSmart reported 30% y/y revenue growth in 3Q17 driven entirely by its ~$3b acquisition of Chewy.com, but revenue in its legacy business slipped by 1.5% and legacy business EBITDA declined 15% y/y; management also uncharacteristically refrained from guiding 4Q results. Additional challenges include pet suppliers' decision to shift to mass distribution as seen by Colgate-Palmolive (Science Diet) in 4Q16 and more recently, Blue Buffalo's decision to sell its premium pet food brand in the mass and grocery channel.

Footwear and apparel also on watch. In addition to pressure on the pet category, other at-risk categories include apparel and footwear (~7% of sales). These categories are growing fast online. TSCO has a wider selection of footwear and apparel online, often available direct from vendors, but that hasn't stopped it from underperforming some other categories in recent quarters. Excluding Petsense, footwear and apparel penetration slipped ~200 bps y/y in 1Q17 and remained constant y/y in 2Q17 and 3Q17. We expect better performance from this category in 4Q17 due to weather.

Company-Specific Initiatives on Track

TSCO completed its nationwide rollouts of buy-online-pickup-in-store (BOPIS) and Neighbor's Club loyalty program at the end of 2Q17, both of which we believe should be incremental sales drivers and increase customer loyalty in 2018.

Initial BOPIS results are encouraging. Approximately 75% of online orders were picked up at stores in 3Q (up from 55% in 2Q), signaling the importance of the bricks and mortar location. BOPIS average tickets remain significantly higher than the company average and customers usually buy 3.5 to 4 additional items when they come into the store to pick up an online order, driving sales that are ~2x the company's average ticket size.

Neighbor's Club gaining traction. Members are receiving reward opportunities and personalized advertising based on transaction history, driving increases in comp transactions and basket sizes. As of 3Q17 end, Neighbor's Club had over 5 million members; TSCO believes there are well over 10m customers for which it will have buying history for when the program fully ramps. Over time, the company will able to increase further refine its personalized communications and improve customer loyalty.

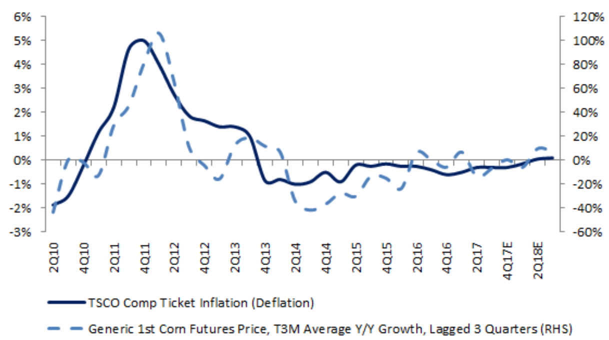
Other technology initiatives on tap. TSCO is piloting other technology initiatives including Mobile POS and Stockyard. Mobile POS allows store associates to find information, locate product and check inventory for products in surrounding stores as well as process a sale through a mobile device. Stockyard is a store-level initiative that merges online and in-store capabilities, allowing store team members and customers to tap into a wider assortment of products in vendors' inventories. This extends TSCO's digital footprint and gives store associates access to merchandise that is not usually carried in stores, which is helpful for customers that are looking to find more "long-tail," unique/hard-to-find items. Associates can research the item on the kiosk, quickly addressing customers' needs and saving time for both themselves and consumers.

Petsense outlook solid. TSCO acquired Petsense over a year ago, and the company reported positive comps and +DD revenue growth in 3Q. Over the last year, TSCO has gained a stronger understanding of the business, determined where to improve the model and integrated operational functions where possible. The company also launched a new Petsense e-commerce site late in 4Q for online purchasing and the company also plans to launch BOPIS in these stores in the spring of 2018.

Deflation to Ease in 2018, as Should Comp Drag from Energy Markets

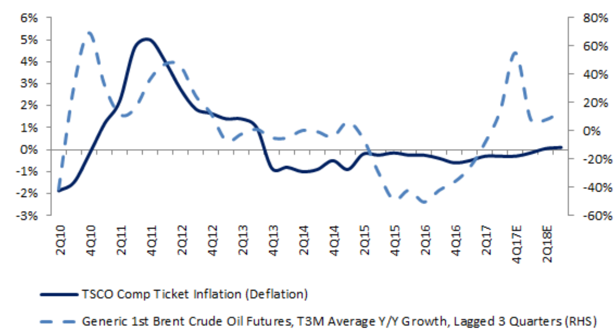
Deflation has negatively impacted TSCO comps for roughly four years. While we forecast a continued drag from deflation this quarter (30 bps), we see potential for receding deflation and a possible inflection to positive in 2018 based on improving corn and Brent crude oil futures prices. Corn futures and oil futures historically correlate with TSCO inflation/deflation impacts on a three quarter lagged basis (corn 0.85; oil: 0.67) since 2009. Corn futures have remained flattish in recent months, decreasing -0.7% in 4Q17 (vs. 8.4% in 3Q), and oil futures increased a sharp 20.4% in 4Q17 (vs. 11.1% in 3Q).

Figure 16: Corn Futures Correlate Strongly with TSCO Inflation/Deflation and Suggest More Limited Deflation in 2H17…



Source: Bloomberg, Company data, Wedbush Securities, Inc. estimates

Figure 17: …While Brent Crude Oil Futures Growth Stabilized in Recent Months and May Drive Favorable Oil Patch Market Performance



Source: Bloomberg, Company data, Wedbush Securities, Inc. estimates

Figure 18: Deflation Pressures Should Ease, and Inflation May Arise in 2018

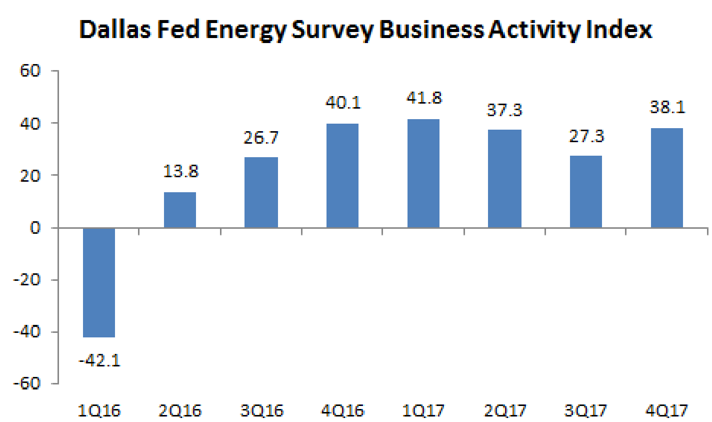
			FY 2016			Exta Week		FY 2017E					
	FY 2014	FY 2015	1Q16	2Q16	3Q16	4Q16	FY 2016	1Q17	2Q17	3Q17	4Q17E	FY 2017E	FY 2018E
Sales Drivers													
SSS	**3.8%**	**3.1%**	**4.9%**	**(0.5%)**	**(0.6%)**	**3.1%**	**1.6%**	**(2.2%)**	**2.2%**	**6.6%**	**1.0%**	**1.9%**	**2.6%**
2-Year Stacked SSS	8.6%	6.9%	10.6%	5.1%	2.3%	1.7%	4.7%	2.7%	1.7%	6.0%	4.1%	3.5%	4.5%
3-Year Stacked SSS	13.9%	11.7%	12.8%	7.0%	7.9%	7.0%	8.5%	8.4%	7.3%	8.9%	2.7%	6.6%	6.1%
Comp Store Ticket Growth	0.6%	(0.2%)	0.7%	(1.9%)	(1.1%)	(0.9%)	(0.9%)	(0.9%)	0.0%	1.5%	0.5%	0.3%	1.0%
2-Year Stacked	0.6%	0.4%	1.5%	(0.6%)	(2.0%)	(2.8%)	(1.1%)	(0.2%)	(1.9%)	0.4%	(0.4%)	(0.6%)	1.3%
3-Year Stacked	2.6%	0.4%	(0.6%)	(0.9%)	0.2%	(0.5%)	(0.5%)	0.6%	(0.6%)	(0.5%)	(2.3%)	(0.8%)	0.4%
Comp Store Traffic Growth	3.2%	3.2%	4.2%	1.5%	0.5%	4.0%	2.5%	(1.4%)	2.2%	5.0%	0.5%	1.6%	1.6%
2-Year Stacked	7.9%	6.4%	9.0%	5.7%	4.3%	4.6%	5.7%	2.8%	3.7%	5.5%	4.5%	4.1%	3.2%
3-Year Stacked	10.9%	11.1%	13.4%	8.0%	7.6%	7.6%	8.9%	7.6%	7.9%	9.3%	5.1%	7.3%	5.7%
Inflation-Adjusted SSS Analysis													
Inflation (Deflation) Comp Impact (bps)	(80)	(35)	(25)	(25)	(40)	(60)	(38)	(50)	(30)	(30)	(30)	(34)	5
Inflation Adjusted SSS	4.6%	3.4%	5.2%	(0.3%)	(0.2%)	3.7%	2.0%	(1.7%)	2.5%	6.9%	1.3%	2.3%	2.5%
2-Year Stacked Inflat Adj SSS	8.7%	8.0%	11.8%	5.6%	3.0%	2.5%	5.4%	3.5%	2.3%	6.7%	5.0%	4.2%	4.8%
3-Year Stacked Inflat Adj SSS	11.5%	12.2%	14.8%	8.5%	9.5%	8.3%	10.0%	10.1%	8.1%	9.9%	3.8%	7.7%	6.8%
Comp Store Inflat-Adj Ticket Growth	1.4%	0.1%	1.0%	(1.7%)	(0.7%)	(0.3%)	(0.5%)	(0.4%)	0.3%	1.8%	0.8%	0.6%	1.0%
2-Year Stacked	0.7%	1.5%	2.7%	(0.2%)	(1.4%)	(2.1%)	(0.4%)	0.6%	(1.4%)	1.1%	0.5%	0.1%	1.6%
3-Year Stacked	0.2%	0.9%	1.4%	0.6%	1.8%	0.8%	1.0%	2.3%	0.2%	0.5%	(1.3%)	0.3%	1.1%

Source: Company data, Wedbush Securities, Inc. estimates

The regional farm and energy economies tied to these commodity prices are also important to TSCO sales. Indeed, softer demand across oil/energy markets continues to weigh on TSCO, led by softer sales in product categories including welders, compressors and larger ticket items such as truck boxes and fuel handling equipment. For the last several quarters, TSCO has pointed to improvement from stores located in oil/energy markets, but per-store sales in these markets remain far from prior sales levels. According to the Dallas Fed Energy Survey, business activity (the survey's broadest measure of conditions) for oil and gas firms continued to expand for a seventh consecutive quarter and improved sequentially to 38.1 in 4Q17 from 27.3 in 3Q, though this reading is below peak 2017 levels in 1Q17.

A sub-segment of the business activity index, the company outlook index, also posted a seventh consecutive positive reading and increased by a significant 23.8 points sequentially to 52.0 in 4Q17, suggesting increased optimism amongst exploration and production firms as well as services firms. As well, an index measuring uncertainty regarding firms' outlooks also declined to -5.3 from 4.9, the first negative reading since the index was introduced in 1Q17 indicating reduced uncertainty.

Figure 19: Texas Oil and Gas Activity Increased Y/Y in Recent Quarters



Note: The Dallas Fed Energy Survey is a timely assessment of energy activity among oil and gas firms. Firms are asked questions on whether business activity, employment, capital expenditures and other indicators increased, decreased or remain unchanged

Each index is calculated by subtracting the percentage of respondents reporting a decrease from the percentage reporting an increase. When the share of firms reporting an increase exceeds the share reporting a decrease, the index will be greater than zero, suggesting the indicator has increased over the previous quarter.

Source: Dallas Fed, Wedbush Securities, Inc.

Margin Pressures Should Ease Modestly in 2018, but May Be Initially Guided below Consensus

We anticipate 2018 annual comp guidance to be somewhat conservative and roughly in line with the initial guidance provided last year including 2-3% comps and EPS growth in the +MSD-HSD range. While company-specific initiatives coupled with relatively easy comparisons through the key spring selling season point to a favorable top-line outlook in 2018, we see modest downside risk to consensus margin estimates as TSCO continues to invest in technology-related, customer-centric initiatives and face other cost pressures including wage inflation and incentive compensation costs, leading us to reduce our estimates. Our underlying SG&A margins now stand 30 bps above consensus and our operating margins now stand 30 bps below consensus, leading us to reduce our underlying 2018 EPS estimate from $3.54 to $3.48.

Figure 20: TSCO Beat Initial Annual EPS Guidance in 2014, Met in 2015, Missed in 2016 and Will Likely Miss in 2017; We Look for Initial 2018 Comp and EPS Growth Guidance About in Line with 2017 Initial Guidance

	2014		2015		2016		2017	
	Initial Guide	Actual	Initial Guide	Actual	Initial Guide	Actual	Initial Guide	Consensus
Sales ($b)	$5.62 - $5.70	$5.71	$6.20 - $6.30	$6.23	$6.90 - $7.00	$6.78	$7.22 - $7.29	$7.22
Sales Growth	9% - 10%	10.6%	9% - 10%	9.0%	11% - 12%	8.9%	6% - 8%	6.5%
Comps	2.5% - 4%	3.8%	2.5% - 4%	3.1%	3.5% - 5%	1.6%	2% - 3%	2.0%
EPS	$2.54 - $2.62	$2.66	$2.95 - $3.05	$3.00	$3.40 - $3.48	$3.27	$3.44 - $3.52	$3.28
EPS Growth	10% - 13%	14.8%	11% - 15%	12.7%	13% - 16%	8.9%	5% - 8%	0.4%

	2018E			
	Initial Guide	Consensus	WS Underlying	WS Tax Reform
Sales ($b)	$7.62 - $7.82	$7.73	$7.72	$7.72
Sales Growth	6% - 8%	7.4%	7.4%	7.4%
Comps	2% - 3%	2.4%	2.5%	2.5%
EPS	$3.43 - $3.53	$3.74	$3.48	$4.08
EPS Growth	5% - 8%	14.4%	6.4%	24.8%

Source: Company data, Wedbush Securities, Inc. estimates

Note: 2018 sales and EPS growth rates are from midpoint of current 2017 sales ($7.17b-$7.22b) and EPS ($3.25-$3.29) guidance.

Margin pressures likely to ease only slightly in 2018 excluding tax reform reinvestment. Looking into 2018, we expect gross margins to be slightly down y/y due to likely increasing fuel costs and higher online sales penetration (that operate with estimated ~1000 bps lower gross margins), and expectations for continued growth in the freight-intensive CUE category. We expect benefits from exclusive brands/sourcing and vendor support from stocking the New York DC based on past precedence (~15 bps benefit from vendors following Arizona DC opening noted in 1Q16) with partial offsets from mix of sales. We expect SG&A deleverage to continue in 2018 due to a number of factors higher incentive compensation and higher pre-opening and other related expenses associated with the new New York DC that will be fully built in 3Q18 and begin servicing stores in late 4Q18. On its last earnings call, TSCO provided some initial 2018 assumptions including expectations for higher incentive compensation to impact 2018 EPS by $0.06-$0.08 (~25-30 bps) and incremental pre-opening and other expenses associated with the new DC to impact EPS by ~$0.03-$0.04 (~10-15 bps) with most of the impact coming in 2H18. We also anticipate continued impact from higher wage inflation across stores and DCs in 2018, but expect the headwind to moderate from levels experienced in 2017. We walk through our assumptions and detailed line-by-line estimates in our margin bridge below (see Figures 21-22).

Figure 21: 2018 Gross Margin Bridge

	Margin	Y/Y	Ex 53rd Week $	Ex 53rd Week Y/Y Growth	Notes:
Gross Margin					
Fuel Costs	1.0%		66.8		
Supply Chain ex-Fuel	4.0%		267.2		
Other (Mix, Promotion, Initiatives)	60.7%		4,054.9		
Cost of Sales	65.7%		4,388.9		
Gross Margin (2016):	34.3%		$ 2,291.0		
Fuel Costs	1.0%	3	74.8	12.0%	Low-double digit increase in fuel prices. Fuel costs account for ~20% of freight expense.
Supply Chain ex-Fuel	4.2%	18	302.4	13.2%	Higher freight expense from rapid growth in online sales (assume online GM are 1000 bps lower than in-store GM) and other freight-intensive categories (e.g., CUE)
Other (Mix, Promotion, Initiatives)	60.6%	(13)	4,382.4	8.1%	Various pricing initiatives and inventory forecasting benefitted gross margin.
Cost of Sales	65.8%	9	4,759.6	8.4%	
Gross Margin (2017E):	34.2%	(9)	$ 2,475.1	8.0%	
Fuel Costs	1.1%	3	82.3	10.0%	Expect ~10% increase in fuel prices based on gasoline futures.
Supply Chain ex-Fuel	4.3%	12	332.2	9.8%	Increase sales mix in online (including ramp up in Petsense online initiatives) and CUE.
Other (Mix, Promotion, Initiatives)	60.6%	1	4,679.8	6.8%	Expect benefits from exclusive brands/sourcing and vendor support from stocking new DC with offset from mix, promotion and partial reinvestment of tax windfall
Cost of Sales	65.9%	16	4,771.0	0.2%	
Gross Margin (2018E):	34.1%	(16)	$ 2,630.7	6.3%	

Source: Company data, Wedbush Securities, Inc. estimates

Figure 22: 2018 SG&A and Operating Margin Bridge

	Margin	Y/Y	Ex 53rd Week $	Ex 53rd Week Y/Y Growth	Notes:
Total Operating Expenses					
Advertising Costs	1.2%		82.6		
Warehousing and Distribution Facility Costs	2.4%		163.7		
Pre-Opening Costs	0.1%		9.9		
Share-Based Compensation	0.4%		23.6		
Rent Expense	4.4%		293.0		
Depreciation & Amortization	2.1%		143.0		
Other Operating Costs (Labor, Corporate)	13.3%		890.1		
Total Operating Costs (2016):	24.1%		$ 1,605.9		
Advertising Costs	1.3%	5	93.1	12.7%	
Warehousing and Distribution Facility Costs	2.5%	10	184.5	12.7%	
Pre-Opening Costs	0.2%	4	13.6	37.5%	
Share-Based Compensation	0.5%	10	32.8	39.0%	
Rent Expense	4.5%	10	324.6	10.8%	
Depreciation & Amortization	2.3%	17	167.2	16.9%	Investments in technology (+16-17% y/y dollar growth).
Other Operating Costs (Labor, Corporate)	13.5%	20	978.2	9.9%	Deleverage from investments in labor/payroll.
Total Operating Costs (2017E):	24.8%	76	$ 1,793.9	11.7%	
Advertising Costs	1.3%	-	99.4	6.8%	
Warehousing and Distribution Facility Costs	2.6%	10	204.7	11.0%	TSCO expects pre-opening and other related expenses with New York DC to impact 2H18
Pre-Opening Costs	0.2%	5	18.4	35.1%	EPS by 0.03-$0.04 (~10-15 bps); we see partial offset from slower new store growth.
Incentive Compensation	0.7%	25	54.3	65.7%	TSCO expects higher incentive compensation to impact 2018 EPS by $0.06-$0.08 (~25-30 bps)
Rent Expense	4.5%	-	346.6	6.8%	
Depreciation & Amortization	2.4%	5	182.4	9.1%	Expect continued investments in digital initiatives.
Other Operating Costs (Labor, Corporate)	13.7%	19	1,058.9	8.2%	TSCO expects wage inflation headwind to persist in 2018, but to a lesser degree than in 2017. We see additional reinvestment from the tax windfall
Total Operating Costs (2018E):	25.5%	64	$ 1,964.6	9.5%	
Operating Margin					
Revenue			$ 6,680.0		
Gross Margin	34.3%		2,291.0		
Total Operating Costs	24.1%		1,605.9		
Operating Margin (2016):	10.3%		$ 685.1		
Revenue			7,234.7	8.3%	
Gross Margin	34.2%	(9)	2,475.1	8.0%	
Total Operating Costs	24.8%	76	1,793.9	11.7%	
Operating Margin (2017E):	9.4%	(84)	$ 681.2	-0.6%	
Revenue			7,724.9	6.8%	
Gross Margin	34.1%	(16)	2,630.7	6.3%	
Total Operating Costs	25.5%	64	1,964.6	9.5%	
Operating Margin (2018E):	8.6%	(79)	666.0	-2.2%	

Source: Company data, Wedbush Securities, Inc. estimates

WEDBUSH

Tax Reform Benefits Likely Partially Reinvested

Assuming a 23% tax rate going forward (down from 36.5% in 2017E), EPS will rise ~20% all else equal, to $4.18. However, we anticipate that at least 15% of tax expense savings will be reinvested back into the business given even more significant reinvestment plans by home improvement peers such as HD and FND. Accordingly, our new 2018 EPS estimate is $4.08 (see Figure 1 and Figures 21-23 for more detail).

Figure 23: Summary of Estimate Revisions

Prior

	2017E		2018E	
Revenue	7,199.0		7,693.3	
Comps		1.9%		2.6%
Gross Margin	2,461.2	34.2%	2,635.0	34.3%
SG&A	1,620.8	22.5%	1,755.6	22.8%
D&A	167.1	2.3%	184.8	2.4%
Total Operating Expenses	1,787.9	24.8%	1,940.4	25.2%
Operating Profit	673.3	9.4%	694.6	9.0%
Tax Rate	36.5%		36.3%	
EPS	$3.27		$3.54	

New - Underlying (Ex Tax Reform)

	2017E		2018E	
Revenue	7,234.7		7,724.9	
Comps		2.5%		2.5%
Gross Margin	2,475.1	34.2%	2,639.4	34.2%
SG&A	1,627.4	22.5%	1,774.9	23.0%
D&A	167.9	2.3%	183.2	2.4%
Total Operating Expenses	1,795.3	24.8%	1,958.1	25.3%
Operating Profit	679.8	9.4%	681.3	8.8%
Tax Rate	36.5%		36.3%	
EPS	$3.30		$3.48	

New - Including Tax Reform

	2017E		2018E	
Revenue	7,234.7		7,724.9	
Comps		2.5%		2.5%
Gross Margin	2,475.1	34.2%	2,639.4	34.2%
SG&A	1,627.4	22.5%	1,774.9	23.0%
D&A	167.9	2.3%	183.2	2.4%
Total Operating Expenses	1,795.3	24.8%	1,958.1	25.3%
Operating Profit	679.8	9.4%	681.3	8.8%
Tax Rate	36.5%		23.0%	
EPS	$3.30		$4.18	

New - Including Tax Reform + 15% Reinvestment of Est. Tax Reform Benefits

	2017E		2018E	
Revenue	7,234.7		7,724.9	
Comps		2.5%		2.5%
Gross Margin	2,475.1	34.2%	2,630.7	34.1%
SG&A	1,627.4	22.5%	1,782.9	23.1%
D&A	167.9	2.3%	183.2	2.4%
Total Operating Expenses	1,795.3	24.8%	1,966.1	25.5%
Operating Profit	679.8	9.4%	664.6	8.6%
Tax Rate	36.5%		23.0%	
EPS	$3.30		$4.08	

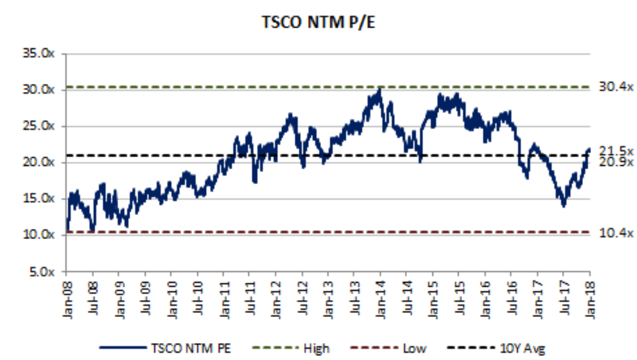
Source: Company data, Wedbush Securities, Inc. estimates

Valuation Fair

On consensus estimates, TSCO trades above its 10-year NTM historical averages on P/E, EV/EBITDA and PEG below its historical average on NTM P/E relative to the S&P 500. On our 2018 estimates embedding tax reform, which bumps our underlying EPS forecast of $3.48 to $4.08, TSCO is trading below historical averages on P/E, relative P/E, but above historical averages on EV/EBITDA and well above historical averages on PEG. Moreover, PEG currently embeds a 11.3% underlying EPS growth, which is optimistic excluding tax reform benefits. Underlying EPS may grow less than 10% for the third straight year in 2018, and the long-term growth algorithm is no higher than low double digits. Due to a lower underlying EPS growth algorithm, we see limited room for further valuation multiple expansion.

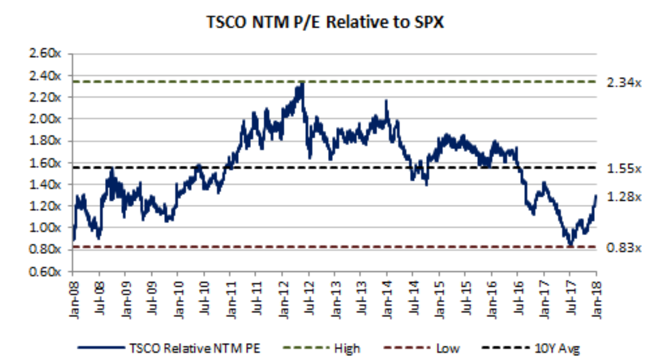
- TSCO is trading at 21.5x consensus NTM P/E, 3% above its 10-year historical average of 20.9x; on our 2018 estimate, TSCO is trading at 19.6x
- TSCO is trading at 1.28x consensus NTM relative P/E, 17% below its 10-year historical average of 1.55x; on our 2018 estimate TSCO is trading at 1.17x
- TSCO is trading at 11.7x NTM EV/EBITDA, 12% above its 10-year historical average of 10.5x; on our 2018 estimate TSCO is trading at 12.5x
- TSCO is trading at 1.58x NTM PEG, 22% above its 10-year historical average of 1.31x; on our 2018 estimate TSCO is trading at 1.73x

Figure 25: TSCO's NTM P/E Valuation Is Slightly Above its Historical 10-Year Average…



Source: Bloomberg, Wedbush Securities, Inc.

Figure 26: …And Is Below its 10-Year Average on a NTM Relative P/E Basis

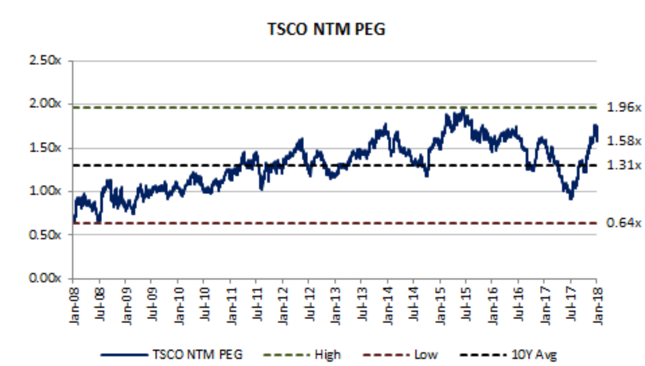


Source: Bloomberg, Wedbush Securities, Inc.

Figure 27: TSCO's NTM EV/EBITDA Valuation Is Above its Historical 10-Year Average…

Source: Bloomberg, Wedbush Securities, Inc.

Figure 28: …As Is TSCO's NTM PEG Valuation



Source: Bloomberg, Wedbush Securities, Inc.

Appendix 1. Historical Weather Trends

Figure 29: Sharp Temperature Changes and Precipitation Drive Fluctuations in TSCO Comps and Stock Price Performance

	Average Daily Temperature Y/Y Change (°F)				Average Daily Precipitation Y/Y Change (in)				TSCO Calendar / Inflation-Adjusted Comps	Notes:
	Jan	Feb	Mar	Qtr Avg	Jan	Feb	Mar	Qtr Avg		
1Q11	-0.8	4.1	-2.0	**0.5**	-0.02	-0.07	-0.05	**-0.05**	9.5%	Longer winter in northern regions; favorable weather in southern regions as company transitioned into spring selling season
1Q12	8.2	4.0	11.1	**7.8**	0.03	-0.03	-0.02	**-0.01**	7.5%	Favorable early spring weather (March strong) and 400 bps of inflation more than offset impact of record warm weather in North
1Q13	-1.3	-5.9	-15.5	**-7.5**	0.00	0.07	0.01	**0.02**	-0.9%	Extended winter selling season helped, with major offset to sales growth from delayed spring and tough y/y comparison in March
1Q14	-10.0	-3.5	-0.3	**-4.6**	-0.04	-0.01	-0.02	**-0.03**	3.0%	Cold temps drove strong winter sales in Jan/Feb; colder than average March delayed spring selling season
1Q15	5.1	-5.0	3.7	**1.3**	0.06	-0.02	0.01	**0.01**	6.6%	Strong winter demand in North despite tough compare in Jan; early arrival of spring weather and easy compare in March helped boost comps
1Q16	2.4	12.2	7.2	**7.2**	-0.02	0.03	-0.02	**0.00**	2.9%	Favorable winter weather demand in January; warmer weather in Feb/Mar (early spring) drove seasonal category strength in lawn & garden
1Q17	4.9	6.0	-6.0	**1.6**	0.05	-0.04	0.04	**0.01**	0.1%	Jan warmth resulted in soft finish to winter sales; Feb warmth drove early spring sales but was more than offset by March cold
	Apr	May	Jun	Qtr Avg	Apr	May	Jun	Qtr Avg		
2Q11	-3.0	-2.0	-1.1	**-2.1**	0.04	0.00	0.02	**0.02**	4.9%	Unseasonal weather was a headwind early in the quarter for seasonal items; drought conditions in South markets and late spring arrival in North
2Q12	1.1	3.4	-0.6	**1.3**	-0.04	-0.05	-0.06	**-0.05**	0.5%	Cooler spring weather in North in late April/early May with subsequent drought conditions in many regions drove neg impact
2Q13	-2.8	-3.6	-0.7	**-2.3**	0.04	0.10	0.16	**0.10**	5.8%	High moisutre levels and late-breaking spring weather produced May sales spike against an easy comparison
2Q14	0.5	1.3	1.4	**1.1**	0.03	-0.07	-0.11	**-0.05**	2.9%	Late-breaking spring produced only gradual sales rise in May against tough comparison; June comps strongest
2Q15	2.5	2.5	-1.2	**1.2**	-0.02	0.08	0.01	**0.02**	5.8%	Early spring momentum persisted in Apr/May (easier comparisons); June also solid despite tough comparison
2Q16	-1.5	-2.9	2.4	**-0.6**	-0.01	-0.10	-0.06	**-0.06**	1.3%	Unfavorable weather in April-May drove seasonal sales softness, particularly in big ticket categories (-8%); favorable trends in June once weather warmed
2Q17	3.9	-2.0	-2.0	**-0.1**	0.05	0.05	0.12	**0.07**	2.5%	Warm April favorable given seasonal demand deferral in 1Q; favorable spring seasonal product demand
	Jul	Aug	Sep	Qtr Avg	Jul	Aug	Sep	Qtr Avg		
3Q11	0.1	-1.8	-2.1	**-1.3**	-0.11	0.10	-0.02	**-0.01**	7.3%	Early cool weather in North had positive impact on sales; favorable impact from Hurricane Irene
3Q12	0.3	-0.7	0.6	**0.1**	0.05	-0.05	-0.04	**-0.01**	1.1%	Drought-like conditions persisted; lack of cold weather in North during September unfavorable
3Q13	-3.6	-1.0	0.9	**-1.3**	0.05	-0.01	-0.01	**0.01**	6.5%	Elevated ground moisture and mild temperatures created exteded spring; temps remained warm in Sept
3Q14	-1.8	0.7	0.3	**-0.3**	0.02	0.02	0.00	**0.01**	6.5%	June momentum continued into July which drove late spring seasonal sales; early cool weather in Sept drove winter sales
3Q15	3.3	1.7	3.1	**2.7**	-0.08	-0.04	0.05	**-0.02**	3.2%	Lack of early winter prep demand due to warmth and tough comparison in September
3Q16	1.1	2.2	0.7	**1.3**	0.08	0.05	-0.06	**0.02**	-0.7%	Hot temperatures, particularly in August, negatively impacted weather-sensitive regions by drying out the land; cool weather did not materialize in September
3Q17	-2.4	-5.1	-2.9	**-3.5**	0.00	-0.03	-0.01	**-0.01**	6.9%	Favorable extended spring selling season following high precip in late-2Q; 120 bps contribution from hurricanes (increase in big ticket products)
	Oct	Nov	Dec	Qtr Avg	Oct	Nov	Dec	Qtr Avg		
4Q11	-1.5	2.9	11.6	**4.3**	0.03	-0.01	0.06	**0.03**	2.1%	Cool Oct helped drive early winter season demand but mild Nov/Dec and limited precip in Midwest/North hurt; inflation and extra day contributed ~600 bps to comps
4Q12	0.0	-4.9	0.1	**-1.6**	-0.03	-0.06	-0.02	**-0.04**	3.1%	Warmer weather y/y across most of country weighed on comps, with partial offset from relative strength in South due to favorable ground moisture levels
4Q13	1.8	-1.2	-6.1	**-1.8**	0.03	0.05	0.04	**0.04**	4.4%	Colder weather y/y (especially in Dec) drove strong winter merchandise sales
4Q14	-0.1	-1.3	4.4	**1.0**	0.03	0.03	-0.03	**0.01**	5.8%	Cold weather early in quarter initiated early winter season demand that persisted through quarter despite tough Dec comparison
4Q15	0.0	9.4	8.5	**6.0**	0.04	0.11	0.00	**0.05**	-1.3%	El Nino effects unfavorable; heating (stoves/fuel), installed outerwear and seasonal big ticket items in Northeast/Midwest negatively impacted comps by 400 bps
4Q16	1.7	-1.4	-9.5	**-3.1**	-0.09	-0.12	-0.04	**-0.08**	4.4%	Unfavorable weather to start quarter; significantly colder y/y temperatures in December spiked winter seasonal sales; favorable exit rate
4Q17E	1.2	-3.9	-3.9	**-2.2**	0.08	-0.07	-0.01	**0.00**	3.3%	Unfavorable warm weather in Oct, but cold weather in November and repeated cold weather in December likely drove strong winter product demand

Source: Wunderground, Company data, Wedbush Securities, Inc. estimates

Appendix 2. TSCO Weather "Playbook"

Figure 30: TSCO Weather Playbook

- **Fall/Winter:**
  - Positive: Extreme cold and winter storms; early cold winter weather trends set tone for season and entice consumers to buy winter weather products. This scenario drives fuel, heating and outdoor power equipment sales.
    - Example: Consumers remembering arctic weather temperatures in winter 2013 bought fall/winter weather products as early as September in preparation for the upcoming 2014 winter season; stronger sales in fuel, wood pellets, log splitters, fireplaces, snow blowers and winter apparel
  - Negative: Warm temperatures in September and an overall mild winter may result in lackluster winter seasonal demand
    - Example: Cool weather came early in fall 2011 which was more favorable, but was more than overshadowed by record warm weather across Northern regions through the winter season.
    - Example: Similar warm weather trends occurred in winter 2015-2016; while January provided minor bursts of cold weather, majority of the winter season was significantly warmer y/y and drove sluggish seasonal demand
- **Spring/Summer:**
  - Positive: Early breaking warm spring weather in March drives sales in garden (e.g., soils, fertilizers) and outdoor power equipment (e.g., riding lawn mowers). Ground moisture and mild temperatures can extend summer selling season.
    - Example: Weather was relatively warmer in winter 2012, so early transition to spring was easier; resulted in pull-forward of sales to 1Q (from 2Q). Note the same also happened in 2016.
    - Example: Similar warm weather trends occurred in winter 2015-2016; while January provided minor bursts of cold weather, majority of the winter season was significantly warmer y/y and drove sluggish seasonal demand
  - Negative: An extended winter selling season is unfavorable for lawn & garden category sales as well as riding lawnmowers and other outdoor power equipment; dry drought-like conditions are also unfavorable.
    - Example: Drought-like conditions across many regions persisted into the summer and drove sales weakness in 2Q12-3Q12.
    - Example: Unseasonably cold and snowy weather in March 2017 across weather-sensitive regions diminished demand for spring seasonal products, driving weak 1Q17 comps.

Source: Company data, Wedbush Securities, Inc.

Figure 31: TSCO Income Statement ($m, FYE December)

							FY 2016			Extra Week		FY 2017E							
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	1Q16	2Q16	3Q16	4Q16	FY 2016	1Q17	2Q17	3Q17	4Q17E	FY 2017E	FY 2018E	FY 2019E	FY 2020E
Total Sales	$ 3,638.3	$ 4,232.7	$ 4,664.1	$ 5,164.8	$ 5,711.7	$ 6,226.5	$ 1,467.8	$ 1,852.5	$ 1,542.7	$ 1,916.5	$ 6,779.6	$ 1,564.1	$ 2,017.8	$ 1,721.7	$ 1,931.2	$ 7,234.7	$ 7,724.9	$ 8,253.0	$ 8,814.1
Cost of Sales	2,434.7	2,825.9	3,098.1	3,411.2	3,761.3	4,083.3	973.4	1,203.3	1,007.4	1,270.3	4,454.4	1,045.9	1,313.1	1,121.2	1,279.4	4,759.6	5,094.2	5,442.5	5,812.5
Gross Profit	1,203.7	1,406.9	1,566.1	1,753.6	1,950.4	2,143.2	494.4	649.2	535.3	646.3	2,325.2	518.2	704.7	600.5	651.8	2,475.1	2,630.7	2,810.5	3,001.6
Operating Expenses	867.6	973.8	1,040.3	1,138.9	1,246.3	1,369.1	352.7	365.9	357.6	412.0	1,488.2	382.1	405.7	410.3	429.3	1,627.4	1,782.9	1,904.8	2,034.3
D&A	69.8	80.3	89.0	100.0	114.6	123.6	33.6	34.1	35.7	39.7	143.0	39.7	41.0	41.9	45.2	167.9	183.2	195.7	209.0
Total SG&A	937.4	1,054.2	1,129.3	1,239.0	1,360.9	1,492.7	386.2	400.0	393.3	451.6	1,631.1	421.8	446.8	452.2	474.5	1,795.3	1,966.1	2,100.5	2,243.3
Operating Profit (Loss)	266.2	352.7	436.8	514.6	589.5	650.5	108.2	249.2	142.0	194.6	694.1	96.4	257.9	148.3	177.3	679.8	664.6	710.0	758.3
Depreciation and Amortization	69.8	80.3	89.0	100.0	114.6	123.6	33.6	34.1	35.7	39.7	143.0	39.7	41.0	41.9	45.2	167.9	183.2	195.7	209.0
EBITDA	336.0	433.1	525.8	614.7	704.1	774.1	141.8	283.3	177.7	234.3	837.0	136.1	299.0	190.2	222.5	847.7	847.8	905.7	967.3
Interest Expense (Income) net	1.3	2.1	1.1	0.6	1.9	2.9	1.1	1.9	1.1	1.7	5.8	2.8	3.1	3.8	3.5	13.1	13.4	13.7	13.9
Pretax Income (Loss)	264.9	350.6	435.7	514.1	587.6	647.6	107.1	247.3	140.9	193.0	688.3	93.6	254.8	144.5	173.8	666.7	651.2	696.4	744.4
Income tax	97.0	127.9	159.3	185.9	216.7	237.2	39.4	90.9	51.5	69.4	251.2	33.3	94.2	52.6	63.1	243.1	149.8	160.2	171.2
Effective Tax Rate	36.6%	36.5%	36.6%	36.2%	36.9%	36.6%	36.8%	36.8%	36.5%	36.0%	36.5%	35.6%	37.0%	36.4%	36.3%	36.5%	23.0%	23.0%	23.0%
Net Income Ex Extraord.	168.0	222.7	276.5	328.2	370.9	410.4	67.7	156.4	89.4	123.6	437.1	60.3	160.6	91.9	110.7	423.6	501.4	536.2	573.2
EPS - Ex Extraord.	$1.12	$1.51	$1.90	$2.32	$2.66	$3.00	$0.50	$1.16	$0.67	$0.94	$3.27	$0.46	$1.25	$0.72	$0.88	$3.30	$4.08	$4.54	$5.06
Avg Diluted Shares Outstanding	149.4	147.8	145.5	141.7	139.4	136.8	134.7	134.6	134.3	131.9	133.8	131.1	128.7	126.9	125.9	128.2	122.9	118.2	113.3
Cash Dividends Per Share	$ 0.16	$ 0.22	$ 0.36	$ 0.49	$ 0.61	$ 0.76	$ 0.20	$ 0.24	$ 0.24	$ 0.24	$ 0.92	$ 0.24	$ 0.27	$ 0.27	$ 0.27	$ 1.05	$ 1.24	$ 1.49	$ 1.79
Analysis																			
Growth (Y/Y)																			
Total SSS (reported)	**7.0%**	**8.2%**	**5.3%**	**4.8%**	**3.8%**	**3.1%**	**4.9%**	**(0.5)%**	**(0.6)%**	**3.1%**	**1.6%**	**(2.2)%**	**2.2%**	**6.6%**	**3.0%**	**2.5%**	**2.5%**	**3.0%**	**3.0%**
Two-Year Stacked Total SSS	5.9%	15.2%	13.5%	10.1%	8.6%	6.9%	10.6%	5.1%	2.3%	1.7%	4.7%	2.7%	1.7%	6.0%	6.1%	4.1%	4.9%	5.5%	6.0%
Total Revenue	13.5%	16.3%	10.2%	10.7%	10.6%	9.0%	10.2%	4.5%	4.5%	16.4%	8.9%	6.6%	8.9%	11.6%	0.8%	6.7%	6.8%	6.8%	6.8%
Gross Profit	16.3%	16.9%	11.3%	12.0%	11.2%	9.9%	11.2%	3.8%	4.5%	15.2%	8.5%	4.8%	8.5%	12.2%	0.9%	6.4%	6.3%	6.8%	6.8%
Gross Profit Comps	9.7%	8.7%	6.4%	6.0%	4.4%	3.9%	5.8%	(1.1)%	(0.6)%	2.0%	1.2%	(3.8)%	1.9%	7.1%	3.1%	2.2%	2.0%	3.0%	3.0%
SG&A	10.2%	12.5%	7.1%	9.7%	9.8%	9.7%	9.8%	5.2%	5.4%	16.5%	9.3%	9.2%	11.7%	15.0%	5.1%	10.1%	9.5%	6.8%	6.8%
Operating Income	44.2%	32.5%	23.8%	17.8%	14.5%	10.4%	16.5%	1.7%	2.0%	12.3%	6.7%	(10.9)%	3.5%	4.4%	(8.9)%	(2.1)%	(2.2)%	6.8%	6.8%
D&A	5.3%	15.1%	10.7%	12.4%	14.6%	7.8%	10.9%	12.4%	18.3%	20.8%	15.7%	18.3%	20.5%	17.6%	13.9%	17.4%	9.1%	6.8%	6.8%
EBITDA	33.9%	28.9%	21.4%	16.9%	14.5%	9.9%	15.1%	2.8%	4.9%	13.7%	8.1%	(4.0)%	5.5%	7.0%	(5.0)%	1.3%	0.0%	6.8%	6.8%
Net Income	45.5%	32.6%	24.1%	18.7%	13.0%	10.7%	16.6%	2.0%	2.4%	10.6%	6.5%	(10.9)%	2.7%	2.7%	(10.4)%	(3.1)%	18.4%	6.9%	6.9%
EPS	42.8%	34.0%	26.1%	21.9%	14.8%	12.7%	19.2%	4.2%	4.3%	13.7%	8.9%	(8.4)%	7.4%	8.7%	(6.2)%	1.2%	23.5%	11.2%	11.5%
Shares Outstanding	1.9%	(1.0)%	(1.6)%	(2.6)%	(1.6)%	(1.9)%	(2.2)%	(2.1)%	(1.8)%	(2.7)%	(2.2)%	(2.7)%	(4.3)%	(5.5)%	(4.5)%	(4.2)%	(4.1)%	(3.8)%	(4.1)%
Margins																			
Gross Margin	33.1%	33.2%	33.6%	34.0%	34.1%	34.4%	33.7%	35.0%	34.7%	33.7%	34.3%	33.1%	34.9%	34.9%	33.8%	34.2%	34.1%	34.1%	34.1%
Operating Expenses	23.8%	23.0%	22.3%	22.1%	21.8%	22.0%	24.0%	19.8%	23.2%	21.5%	22.0%	24.4%	20.1%	23.8%	22.2%	22.5%	23.1%	23.1%	23.1%
D&A	1.9%	1.9%	1.9%	1.9%	2.0%	2.0%	2.3%	1.8%	2.3%	2.1%	2.1%	2.5%	2.0%	2.4%	2.3%	2.3%	2.4%	2.4%	2.4%
Total SG&A	25.8%	24.9%	24.2%	24.0%	23.8%	24.0%	26.3%	21.6%	25.5%	23.6%	24.1%	27.0%	22.1%	26.3%	24.6%	24.8%	25.5%	25.5%	25.5%
Operating Margin	7.3%	8.3%	9.4%	10.0%	10.3%	10.4%	7.4%	13.5%	9.2%	10.2%	10.2%	6.2%	12.8%	8.6%	9.2%	9.4%	8.6%	8.6%	8.6%
EBITDA	9.2%	10.2%	11.3%	11.9%	12.3%	12.4%	9.7%	15.3%	11.5%	12.2%	12.3%	8.7%	14.8%	11.0%	11.5%	11.7%	11.0%	11.0%	11.0%
Net Income	4.6%	5.3%	5.9%	6.4%	6.5%	6.6%	4.6%	8.4%	5.8%	6.4%	6.4%	3.9%	8.0%	5.3%	5.7%	5.9%	6.5%	6.5%	6.5%
Productivity																			
SG&A per Store ($000)	970.9	1,010.7	998.9	1,010.6	1,024.0	1,040.2	256.7	261.2	252.3	285.0	1,058.1	262.7	275.2	274.5	283.4	1,095.0	1,132.5	1,140.3	1,149.0
Growth	1.9%	4.1%	(1.2)%	1.2%	1.3%	1.6%	2.3%	(1.8)%	(1.8)%	8.5%	1.7%	2.3%	5.4%	8.8%	(0.6)%	3.5%	3.4%	0.7%	0.8%

Source: Company data, Wedbush Securities, Inc. estimates

Figure 32: TSCO Balance Sheet ($m, FYE December)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017E	FY 2018E	FY 2019E	FY 2020E
Assets											
Cash and cash equivalents	257.3	177.0	138.6	142.7	51.1	63.8	53.9	238.2	228.6	249.4	303.2
Inventories	736.5	830.8	908.1	979.3	1,115.5	1,284.4	1,369.7	1,465.5	1,568.1	1,677.9	1,795.3
Prepaid expenses	33.9	51.7	51.8	57.4	66.4	87.5	90.6	96.6	103.2	110.2	117.7
Income taxes receivable						3.8	3.7	3.7	3.7	3.7	3.7
Total current assets	1,043.7	1,081.4	1,107.0	1,209.2	1,274.0	1,485.4	1,517.8	1,804.0	1,903.6	2,041.2	2,220.0
Property and equipment, net	395.8	480.9	550.0	664.9	721.0	847.6	962.3	1,034.4	1,111.2	1,175.5	1,226.5
Goodwill	10.3	10.3	10.3	10.3	10.3	10.3	125.7	125.7	125.7	125.7	125.7
Deferred income taxes	5.8	8.9	23.1	0.1	8.8	9.2	45.2	45.2	45.2	45.2	45.2
Other assets	8.0	13.5	16.5	18.9	20.5	18.3	23.9	23.9	23.9	23.9	23.9
Total Assets	**1,463.5**	**1,594.8**	**1,706.8**	**1,903.4**	**2,034.6**	**2,370.8**	**2,674.9**	**3,033.3**	**3,209.7**	**3,411.5**	**3,641.3**
Liabilities and Shareholders' Equity											
Accounts payable	247.4	266.4	320.4	316.5	370.8	427.2	519.5	570.5	626.2	686.8	752.8
Total accrued expenses	162.0	182.3	196.7	206.2	219.6	237.7	240.9	242.6	244.4	246.4	248.5
Current portion of long-term debt							10.0	10.0	10.0	10.0	10.0
Current portion of capital lease obligations	0.1	0.0	0.0	0.0	0.2	0.9	1.3	1.3	1.3	1.3	1.3
Income taxes currently payable	8.3	11.9	43.4	9.4	12.4	5.4	5.5	5.9	6.2	6.7	7.1
Revolving credit loan						150.0					
Total current liabilities	417.7	460.6	560.5	532.1	603.1	821.3	777.2	830.3	888.1	951.1	1,019.7
Long-term debt							263.9	513.9	513.9	513.9	513.9
Capital lease obligations, less current maturities	1.3	1.3	1.2	1.2	5.0	17.0	25.9	25.9	25.9	25.9	25.9
Deferred income taxes	8.9	13.8	1.5								
Deferred rent	70.7	75.7	76.2	76.9	79.8	84.8	100.1	106.8	114.0	121.8	130.1
Other long-term liabilities	31.7	35.1	42.4	46.2	53.2	54.5	54.7	54.7	54.7	54.7	54.7
Total liabilities	530.2	586.5	681.8	656.5	741.0	977.5	1,221.7	1,531.5	1,596.6	1,667.4	1,744.3
Stockholders' Equity	933.2	1,008.3	1,025.0	1,246.9	1,293.6	1,393.3	1,453.2	1,501.7	1,613.1	1,744.1	1,897.1
Tot. Liabilities/Stockholders' Equity	**1,463.5**	**1,594.8**	**1,706.8**	**1,903.4**	**2,034.6**	**2,370.8**	**2,674.9**	**3,033.3**	**3,209.7**	**3,411.5**	**3,641.3**

Source: Company data, Wedbush Securities, Inc. estimates

WEDBUSH

Figure 33: TSCO Cash Flow Statement ($m, FYE December)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017E	FY 2018E	FY 2019E	FY 2020E
Cash Flow from Operations											
Net income	168.0	222.7	276.5	328.2	370.9	410.4	437.1	423.6	501.4	536.2	573.2
Non-cash adjustments to net income											
Depreciation and amortization	69.8	80.3	89.0	100.0	114.6	123.6	143.0	167.9	183.2	195.7	209.0
Gain on disposition of property and equipment	1.1	1.0	0.1	0.0	0.4	0.3	0.6	0.6	0.6	0.6	0.6
Asset impairment related to closed stores											
Stock compensation expense	11.8	15.0	17.6	13.9	16.2	19.4	23.6	20.0	20.0	20.0	20.0
Excess tax benefit of stock options exercised			(25.8)	(43.5)	(18.9)	(27.0)	(11.7)	(10.0)	(10.0)	(10.0)	(10.0)
Deferred income taxes	2.7	1.9	(26.6)	(8.3)	(19.8)	(5.5)	10.0	10.0	10.0	10.0	10.0
Other											
Subtotal	253.3	320.9	330.7	390.4	463.4	521.2	602.5	612.0	705.2	752.5	802.8
Change in Working Capital											
Adjustments to net working capital											
Accounts receivable											
Inventories	(60.1)	(94.3)	(77.3)	(71.2)	(136.1)	(168.9)	(67.7)	(95.9)	(102.6)	(109.8)	(117.5)
Prepaid expenses and other current assets	(3.2)	(17.8)	(0.1)	(5.6)	(9.1)	(21.1)	1.8				
Accounts Payable	(14.2)	19.0	54.0	(3.9)	54.3	56.4	82.5	51.0	55.6	60.6	66.0
Accrued employee compensation	11.9	13.7	0.1	2.2	(13.5)	5.6	(18.2)	1.7	1.8	2.0	2.1
Other accrued expenses	26.7	6.3	8.8	9.9	20.4	11.3	20.4				
Income taxes payable	1.0	3.6	57.3	9.6	21.9	16.3	11.8	0.4	0.4	0.4	0.5
Other	7.3	2.7	4.7	2.3	7.9	8.4	6.0				
Subtotal	(30.7)	(66.8)	47.6	(56.7)	(54.2)	(92.0)	36.5	(42.8)	(44.7)	(46.8)	(48.9)
Cash flow from Operations	**222.6**	**254.1**	**378.3**	**333.7**	**409.2**	**429.2**	**639.0**	**569.3**	**660.5**	**705.7**	**753.9**
Cash Flow from Investments											
Capital expenditures	(96.5)	(166.2)	(152.9)	(218.2)	(160.6)	(236.5)	(226.0)	(240.0)	(260.0)	(260.0)	(260.0)
Proceeds from sale of property and equipment	0.3	0.8	0.4	0.5	0.3	0.6	0.4				
Proceeds from short-term investments	(15.9)	15.9									
Acquisitions							(143.6)				
Restricted cash deposits		(21.9)	13.5	8.4							
Other											
Net cash flow from Investments	**(112.1)**	**(171.4)**	**(139.1)**	**(209.3)**	**(160.3)**	**(235.9)**	**(369.3)**	**(240.0)**	**(260.0)**	**(260.0)**	**(260.0)**
Cash Flow from Financing											
Borrowings under revolving credit agreement, net						150.0	125.0	125.0	125.0	125.0	125.0
Debt Issuance Costs							(1.4)				
Debt Repayments								(50.0)	(150.0)	(150.0)	(150.0)
Debt Proceeds								300.0	150.0	150.0	150.0
Excess tax benefit of stock options exercised	9.8	17.4	25.8	43.5	18.9	27.0	11.7	25.0	25.0	25.0	25.0
Principal payments under capital lease obligati	(0.4)	(0.1)	(0.0)	(0.0)	(0.1)	(0.5)	(1.2)				
Repurchase of shares to satisfy tax obligations	(0.8)	(1.1)	(6.8)	(4.1)	(4.8)	(3.0)	(0.8)	(5.0)	(5.0)	(5.0)	(5.0)
Repurchase of common stock	(38.2)	(180.0)	(271.8)	(129.4)	(298.5)	(292.7)	(331.7)	(425.0)	(425.0)	(425.0)	(425.0)
Net proceeds from issuance/sale of common s	23.9	31.5	26.6	38.3	28.1	41.7	41.0	20.0	20.0	20.0	20.0
Redemption of preffered stock											
Payment of preferred stock dividend											
Cash dividends paid to stockholders	(20.4)	(30.9)	(51.3)	(68.5)	(84.1)	(103.1)	(122.3)	(135.0)	(150.0)	(165.0)	(180.0)
Other											
Net cash flow from Financing	**(26.0)**	**(163.2)**	**(277.6)**	**(120.2)**	**(340.5)**	**(180.6)**	**(279.7)**	**(145.0)**	**(410.0)**	**(425.0)**	**(440.0)**
F/X effect, net											
Net increase (decrease) in cash	84.5	(80.4)	(38.3)	4.1	(91.6)	12.7	(9.9)	184.3	(9.5)	20.7	53.9
Cash balance beginning of period	172.8	257.3	177.0	138.6	142.7	51.1	63.8	53.9	238.2	228.6	249.4
Cash balance end of period	257.3	177.0	138.6	142.7	51.1	63.8	53.9	238.2	228.6	249.4	303.2
Free Cash Flow (CFO-CapEx)	**126.1**	**88.0**	**225.4**	**115.5**	**248.6**	**192.7**	**413.0**	**329.3**	**400.5**	**445.7**	**493.9**
FCF per Share	0.84	0.60	1.55	0.81	1.78	1.41	3.09	2.57	3.26	3.77	4.36

Source: Company data, Wedbush Securities, Inc. estimates

WEDBUSH

Valuation

Our $80 price target (from $72) is 20x our 2018 EPS estimate of $4.08 (up from $3.54).

Risks to the Attainment of Our Price Target and Rating:

Risks to the attainment of our price target and rating include increasing competition, fluctuating industry sales and farmer income reports, stronger macro factors, store growth plans, future promotional cadence and discounting, investments impacting SG&A, volatile gasoline prices, energy costs, interest rates and weather.

Analyst Certification

We, Seth Basham, Nathan Friedman and Jordan Flannery, certify that the views expressed in this report accurately reflect our personal opinions and that we have not and will not, directly or indirectly, receive compensation or other payments in connection with our specific recommendations or views contained in this report.

Mentioned Companies

Company	Rating	Price	Target
Amazon.com	OUTPERFORM	$1,254.33	$1,285.00
Floor & Decor Holdings, Inc.	OUTPERFORM	$46.25	$50.00
Home Depot	NEUTRAL	$191.80	$170.00
Lowe's Companies	NEUTRAL	$94.17	$80.00

Investment Rating System:

OUTPERFORM: Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

NEUTRAL: Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

UNDERPERFORM: Expect the total return of the stock to underperform relative to the median total return of the analyst's (or the analyst's team) coverage universe of the next 6-12 months.

The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).*

Rating distribution (as of January 11, 2018)	Investment Banking Relationships (as of January 11, 2018)
OUTPERFORM: 54.42% NEUTRAL: 44.17% UNDERPERFORM: 1.41%	OUTPERFORM: 11.69% NEUTRAL: 3.20% UNDERPERFORM: 0.00%

The Distribution of Ratings is required by FINRA rules; however, WS' stock ratings of Outperform, Neutral, and Underperform most closely conform to Buy, Hold, and Sell, respectively. Please note, however, the definitions are not the same as WS' stock ratings are on a relative basis.

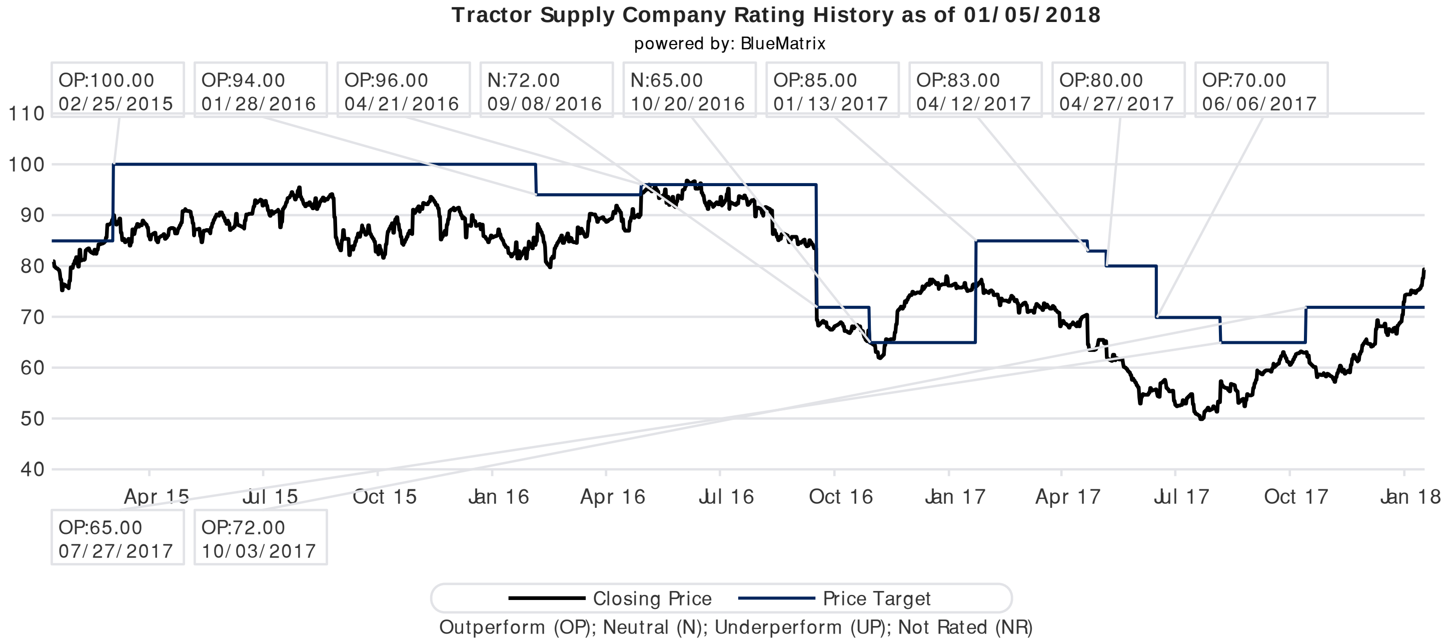
The analysts responsible for preparing research reports do not receive compensation based on specific investment banking activity. The analysts receive compensation that is based upon various factors including WS' total revenues, a portion of which are generated by WS' investment banking activities.

Company Specific Disclosures

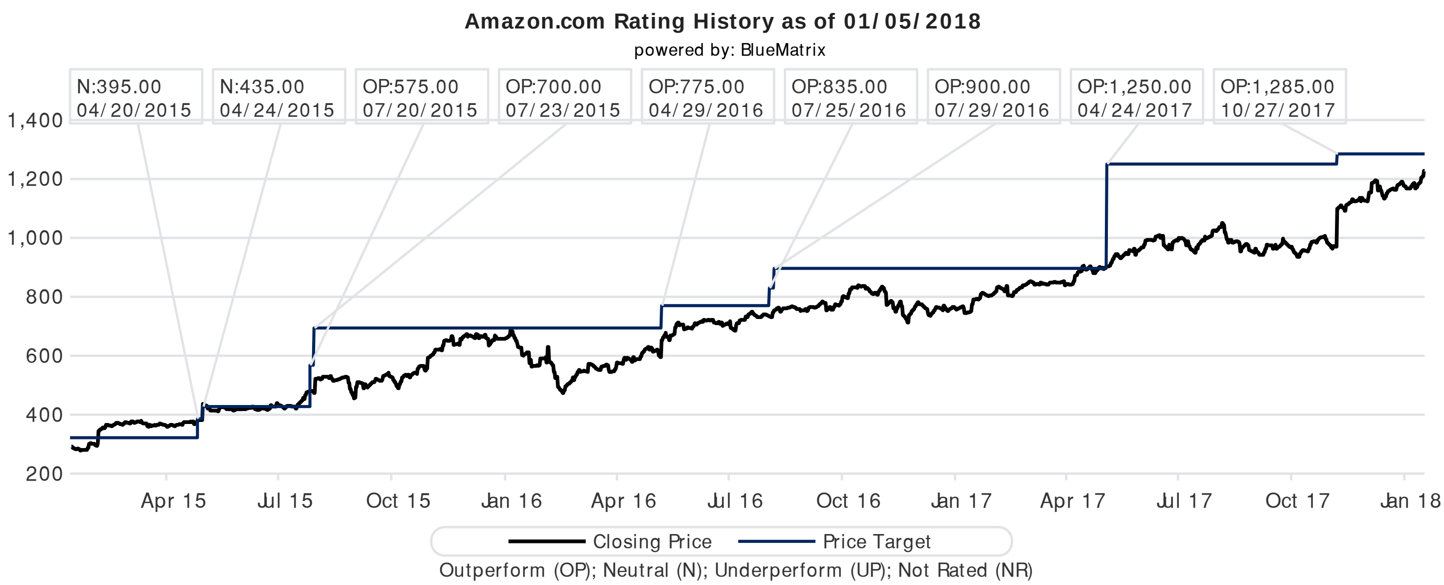
1. WS makes a market in the securities of Tractor Supply Company, Amazon.com, Floor & Decor Holdings, Inc., Home Depot and Lowe's Companies.

Price Charts

WEDBUSH

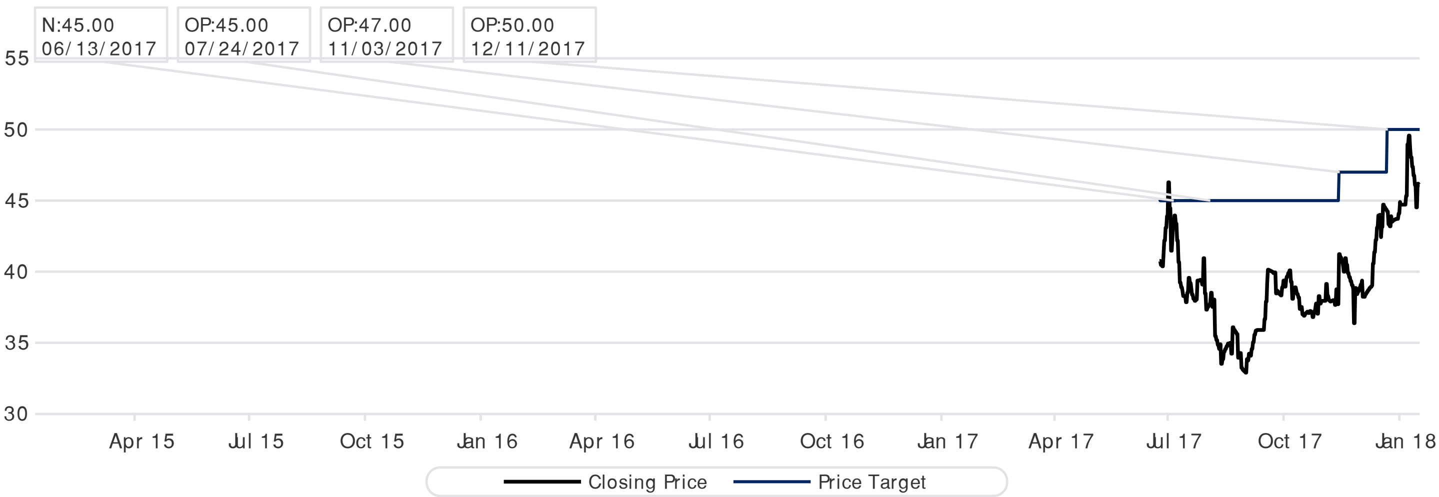


Tractor Supply Company Rating History as of 01/05/2018
powered by: BlueMatrix
OP:100.00 02/25/2015
OP:94.00 01/28/2016
OP:96.00 04/21/2016
N:72.00 09/08/2016
N:65.00 10/20/2016
OP:85.00 01/13/2017
OP:83.00 04/12/2017
OP:80.00 04/27/2017
OP:70.00 06/06/2017
OP:65.00 07/27/2017
OP:72.00 10/03/2017
110
100
90
80
70
60
50
40
Apr 15
Jul 15
Oct 15
Jan 16
Apr 16
Jul 16
Oct 16
Jan 17
Apr 17
Jul 17
Oct 17
Jan 18
Closing Price
Price Target
Outperform (OP); Neutral (N); Underperform (UP); Not Rated (NR)



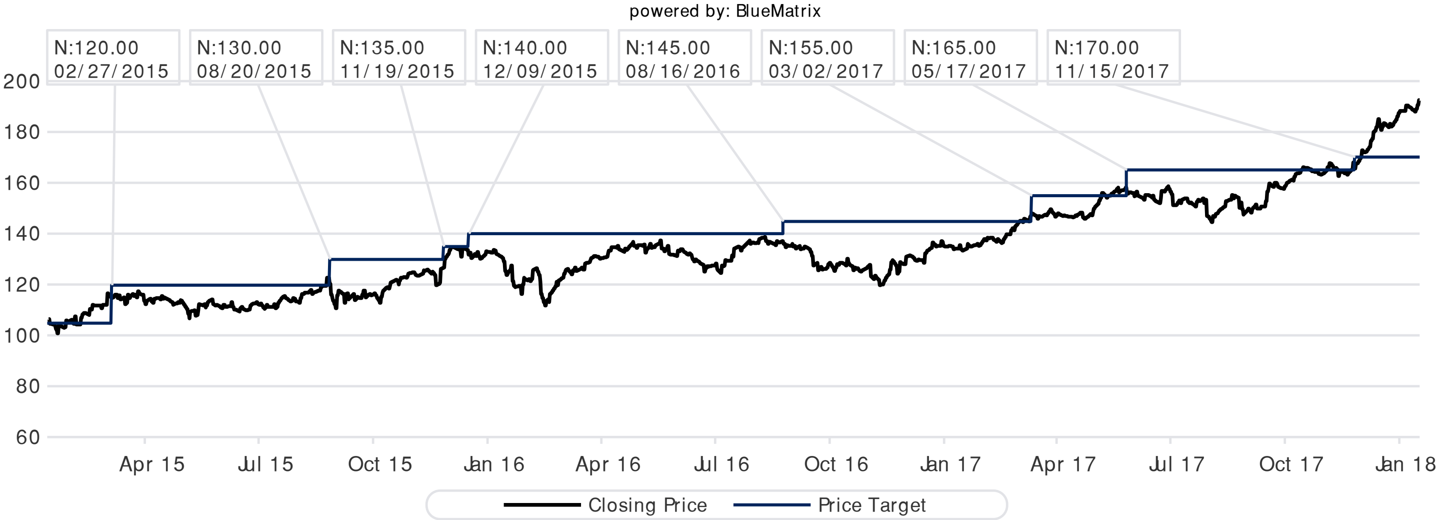
Amazon.com Rating History as of 01/05/2018
powered by: BlueMatrix
N:395.00 04/20/2015
N:435.00 04/24/2015
OP:575.00 07/20/2015
OP:700.00 07/23/2015
OP:775.00 04/29/2016
OP:835.00 07/25/2016
OP:900.00 07/29/2016
OP:1,250.00 04/24/2017
OP:1,285.00 10/27/2017
1,400
1,200
1,000
800
600
400
200
Apr 15
Jul 15
Oct 15
Jan 16
Apr 16
Jul 16
Oct 16
Jan 17
Apr 17
Jul 17
Oct 17
Jan 18
Closing Price
Price Target
Outperform (OP); Neutral (N); Underperform (UP); Not Rated (NR)

Floor & Decor Holdings, Inc. Rating History as of 01/05/2018
powered by: BlueMatrix

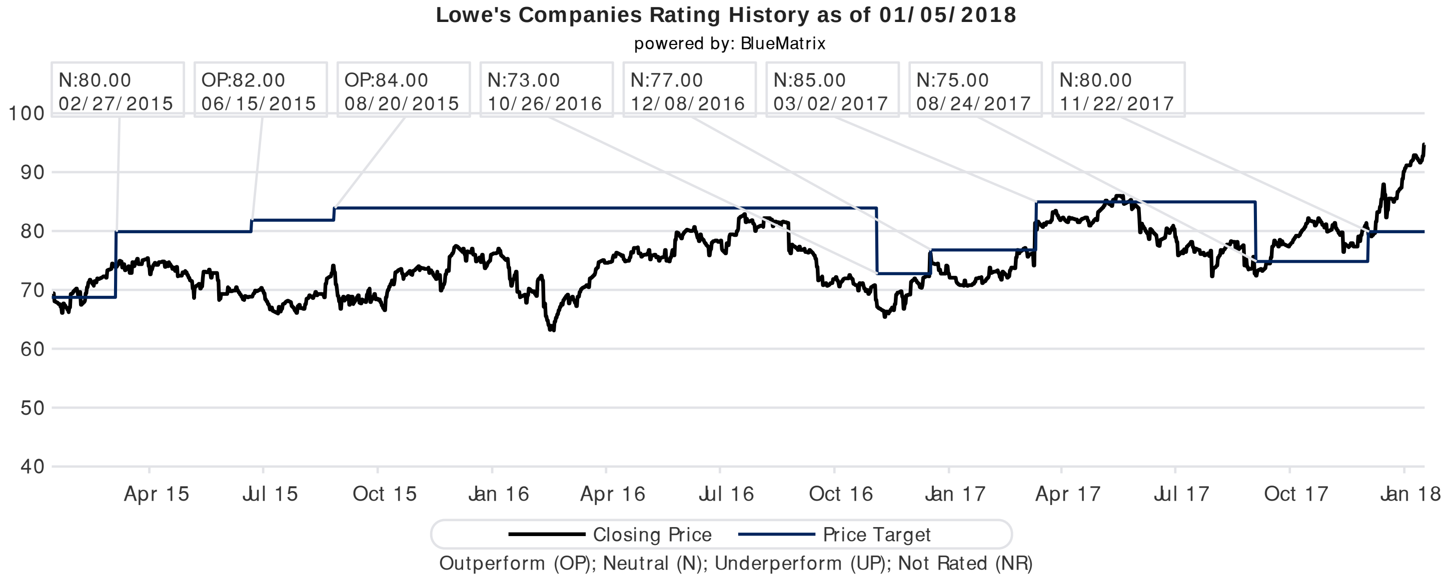


Outperform (OP); Neutral (N); Underperform (UP); Not Rated (NR)

Home Depot Rating History as of 01/05/2018
powered by: BlueMatrix



Outperform (OP); Neutral (N); Underperform (UP); Not Rated (NR)



Wedbush disclosure price charts are updated within the first fifteen days of each new calendar quarter per FINRA regulations. Price charts for companies intiated upon in the current quarter, and rating and target price changes occurring in the current quarter, will not be displayed until the following quarter. Additional information on recommended securities is available on request.

Disclosure information regarding historical ratings and price targets is available at http://www.wedbush.com/ResearchDisclosure/DisclosureQ217.pdf

*WS changed its rating system from (Strong Buy/ Buy/ Hold/ Sell) to (Outperform/ Neutral/ Underperform) on July 14, 2009.

Please access the attached hyperlink for WS' Coverage Universe: http://www.wedbush.com/services/cmg/equities-division/research/equity-research

Applicable disclosure information is also available upon request by contacting Leslie Lippai in the Research Department at (212) 833-1375, by email to leslie.lippai@wedbush.com, or the Business Conduct Department (213) 688-8090. You may also submit a written request to the following: Business Conduct Department, 1000 Wilshire Blvd., Los Angeles, CA 90017.

OTHER DISCLOSURES

The information herein is based on sources that we consider reliable, but its accuracy is not guaranteed. The information contaned herein is not a representation by this corporation, nor is any recommendation made herein based on any privileged information. This information is not intended to be nor should it be relied upon as a complete record or analysis: neither is it an offer nor a solicitation of an offer to sell or buy any security mentioned herein. This firm, Wedbush Securities, its officers, employees, and members of their families, or any one or more of them, and its discretionary and advisory accounts, may have a position in any security discussed herein or in related securities and may make, from time to time, purchases or sales thereof in the open market or otherwise. The information and expressions of opinion contained herein are subject to change without further notice. The herein mentioned securities may be sold to or bougt from customers on a principal basis by this firm. Additional information with respect to the information contained herein may be obtained upon request.

WEDBUSH

Equity Research

HEALTHCARE

Biotechnology		
David Nierengarten, Ph.D.	(415) 274-6862	david.nierengarten@wedbush.com
Biotechnology		
Robert Driscoll	(415) 274-6863	robert.driscoll@wedbush.com
Emerging Pharmaceuticals		
Liana Moussatos, Ph.D.	(415) 263-6626	liana.moussatos@wedbush.com

TMT

Payments/IT Services		
Moshe Katri	(212) 938-9947	moshe.katri@wedbush.com
Digital Media		
Michael Pachter	(213) 688-4474	michael.pachter@wedbush.com
Digital Media		
Nick McKay	(213) 688-4343	nick.mckay@wedbush.com
Internet: E-commerce		
Aaron Turner	(213) 688-4429	aaron.turner@wedbush.com
Enterprise Software		
Steve Koenig	(415) 274-6801	steve.koenig@wedbush.com

RETAIL AND CONSUMER

Footwear & Apparel		
Christopher Svezia	(212) 938-9922	christopher.svezia@wedbush.com
Hardlines Retail		
Seth Basham	(212) 938-9954	seth.basham@wedbush.com
Homebuilders/Building Products		
Jay McCanless	(212) 833-1381	jay.mccanless@wedbush.com
Leisure		
James Hardiman	(212) 833-1362	james.hardiman@wedbush.com
Restaurants		
Nick Setyan	(213) 688-4519	nick.setyan@wedbush.com

FINANCIAL INSTITUTIONS GROUP

Financial Infrastructure & Real Estate Finance		
Jason Weaver	(212) 833-1383	jason.weaver@wedbush.com
Mid-Cap Banks		
David Chiaverini	(212) 938-9934	david.chiaverini@wedbush.com
Regional Banks		
Peter Winter	(212) 938-9942	peter.winter@wedbush.com
Specialty Finance		
Henry Coffey	(212) 833-1382	henry.coffey@wedbush.com

RESEARCH MANAGEMENT

Jesse Bigelow
Director of Research
jesse.bigelow@wedbush.com
(212) 259-6581

Strecker Backe
Associate, Equity Research
strecker.backe@wedbush.com
(212) 833-1367

EQUITY CO-HEADS

Kirsten Fraunces
kirsten.fraunces@wedbush.com
(213) 688-4404

Ian Winer
ian.winer@wedbush.com
(213) 688-4471

CORPORATE ACCESS

Anita Minassian
VP, Corporate Access
wedbush.conferences@wedbush.com
(213) 688-4404

Phylicia Kirven
AVP, Corporate Access
equitymarketing@wedbush.com
(213) 688-4455

TRADING

Consumer		
Jack Collins	(415) 274-6816	jack.collins@wedbush.com
Healthcare		
Sahak Manualian	(213) 688-4533	sahak.manuelian@wedbush.com
Financials		
Rob Cohen	(212) 938-9952	rob.cohen@wedbush.com
TMT		
Joel Kulina	(212) 938-2056	joel.kulina@wedbush.com

WEDBUSH OFFICES

LOS ANGELES
1000 Wilshire Boulevard
Los Angeles, CA 90017
(213) 688-8000

NEW YORK
142 W 57th Street
New York, NY 10019
(212) 938-9920

SAN FRANCISCO
2 Embarcadero Center, Suite 600
San Francisco, CA 94111
(415) 273-7300

BOSTON
265 Franklin Street
Boston, MA 02110
(617) 832-3700

CHICAGO
141 W. Jackson Boulevard, Suite 1710A
Chicago, IL 60604
(312) 786-1930

www.wedbush.com