

Tractor Supply Co (TSCO)

Earnings Update
Hold | Outperform
Tyler Helpenstill | February 1, 2023



Overview

Summary

Overall, Tractor Supply Co had a successful 4th quarter beating both revenue and earnings estimates to cap off their fiscal 2022 year. The quarterly results for diluted EPS jumped up 25.9% to \$2.43 and grew 12.8% to \$9.71 for the full year. In addition, revenue increased 20.7% for the quarter and grew 11.6% to \$14.2 billion for the full year. Comparable store sales increased 6.3% for the full year and 8.6% for the quarter. Growth in the quarter was driven by comparable average ticket growth of 6.3% and comparable average transaction count increase of 2.3%.

Management provided strong fiscal 2023 guidance, forecasting sales to grow at 19%, EPS to grow 8% and for margins to remain healthy.

Net Sales	\$15.0 billion to \$15.3 billion
Comparable Store Sales	+3.5% to +5.5%
Operating Margin Rate	10.1% to 10.3%
Net Income	\$1.13 billion to \$1.17 billion
Earnings per Diluted Share	\$10.30 to \$10.60
Capital Expenditures	\$700 million to \$775 million
Share Repurchases	\$575 million to \$675 million

QYY Earnings

Results

	Three Months Ended				Year Ended			
	December 31, 2022 (14 weeks)		December 25, 2021 (13 weeks)		December 31, 2022 (53 weeks)		December 25, 2021 (52 weeks)	
		% of Net Sales		% of Net Sales		% of Net Sales		% of Net Sales
Net sales	\$ 4,006,375	100.00%	\$ 3,319,284	100.00%	\$ 14,204,717	100.00%	\$ 12,731,105	100.00%
Cost of merchandise sold	2,642,750	65.96	2,198,706	66.24	9,232,513	65.00	8,253,952	64.83
Gross profit	1,363,625	34.04	1,120,578	33.76	4,972,204	35.00	4,477,153	35.17
Selling, general and administrative expenses	909,595	22.70	752,097	22.66	3,194,199	22.48	2,900,297	22.78
Depreciation and amortization	94,820	2.37	75,427	2.27	343,062	2.42	270,158	2.12
Operating income	359,210	8.97	293,054	8.83	1,434,943	10.10	1,306,698	10.27
Interest expense, net	10,241	0.26	6,542	0.20	30,633	0.22	26,610	0.21
Income before income taxes	348,969	8.71	286,512	8.63	1,404,310	9.88	1,280,088	10.06
Income tax expense	78,099	1.95	65,174	1.96	315,598	2.22	282,974	2.22
Net income	\$ 270,870	6.76%	\$ 221,338	6.67%	\$ 1,088,712	7.66%	\$ 997,114	7.84%
Net income per share:								
Basic	\$ 2.45		\$ 1.95		\$ 9.78		\$ 8.69	
Diluted	\$ 2.43		\$ 1.93		\$ 9.71		\$ 8.61	
Weighted average shares outstanding:								
Basic	110,433		113,668		111,336		114,794	
Diluted	111,282		114,787		112,149		115,824	
Dividends declared per common share outstanding	\$ 0.92		\$ 0.52		\$ 3.68		\$ 2.08	

Sales

Sale growth for the quarter of 20.7% was driven by the Elliot Winter storms as it allowed for 2 percentage points benefits towards comparable sales. As Elliott moved across the country, sales accelerated given the storm's impact on many customers' needs for heat, insulated outdoor, livestock feed and forage and some load up of other C.U.E. Products. In the extra week (wk.53) the company added 225 million to their net sales representing 6.8 points on the net sales growth in the last quarter. On the fiscal year it represented 1.8 points of the 11.6% growth-year-over-year.

Gross Margin

In the 4th quarter gross profit as a percent of sales grew from 33.8% to 34%, a 28 basis point gain. The key factor towards this increase was the product mix from robust growth of C.U.E products. In the fiscal year, the Gross margin decreased from 35.2% to 35%, which is -17 basis points. The key drivers were the product cost inflation pressure rising and the increase of transportation cost.

Capital Allocation

Cash dividends in the 4th quarter totaled around \$101.7 million returning \$193.7 million of capital to shareholders. In the year, the cash dividends totaled out to be \$409.6 million while returning \$1.1 billion of capital to shareholders.

Other Commentary & Items

Tractor Supply Visa Credit Card

This idea has allowed for customers to earn more rewards for everyday purchases which has easily boosted the company. The company has now crossed over \$1 billion worth of private label and credit sales. This co-brand credit has allowed has built loyalty and reduce tender expense through credit offerings.

Neighbors Club

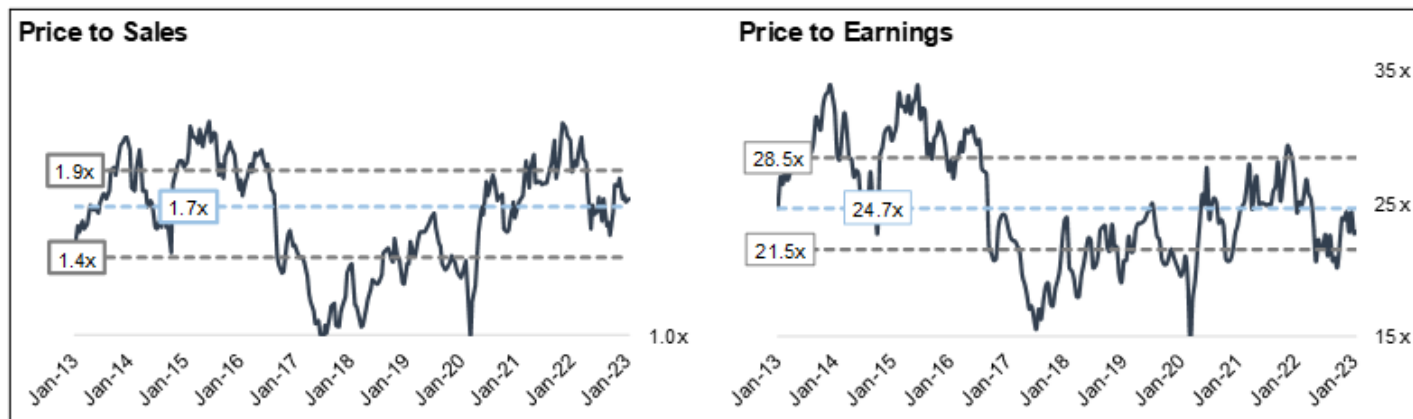
A key factor for the company's strong traffic growth was the increase of members (47%) in the neighbor's Club Program as they have 28 million and counting. The club represented 75% of the company's sales over the year. The club is more a type of a rewards club and the more you spend, the more points you will receive. The plan has successful allowed for their customers to spend a higher threshold with the company.

IOFS

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	LTM	Trend
IOF S												
Revenue	5,165	5,712	6,227	6,780	7,256	7,911	8,352	10,620	12,731	14,205	14,205	
Gross Margin	34.0%	34.1%	34.4%	34.3%	34.3%	34.2%	34.4%	35.4%	35.2%	35.0%	35.0%	
Operating Margin	10.0%	10.3%	10.4%	10.2%	9.5%	8.9%	8.9%	10.0%	10.3%	10.1%	10.1%	
Net Margin	6.4%	6.5%	6.6%	6.4%	5.8%	6.7%	6.7%	7.1%	7.8%	7.7%	7.7%	
FCF Margin	2.2%	4.4%	3.5%	6.3%	5.3%	5.3%	7.1%	10.4%	4.0%	4.1%	4.1%	
R&D + SG&A / Gross Inc	64.9%	63.9%	63.9%	64.0%	65.8%	67.5%	67.3%	65.9%	64.8%	64.2%	64.2%	
D&A / Gross Inc	5.7%	5.9%	5.8%	6.1%	6.7%	6.6%	6.8%	5.8%	6.0%	6.9%	6.9%	
Int Exp / Operating Inc	0.1%	0.3%	0.4%	0.8%	2.0%	2.6%	2.7%	2.7%	2.0%	2.1%	-	
Capex / Net Income	66.5%	43.3%	57.6%	51.7%	59.3%	52.3%	38.7%	39.3%	63.0%	71.0%	71.0%	
Returns												
ROE	28.9%	29.2%	30.5%	30.7%	29.4%	35.7%	35.9%	42.9%	50.8%	53.8%	56.2%	
ROE FCF	9.3%	19.2%	15.8%	29.2%	26.9%	26.6%	37.9%	57.2%	25.5%	28.6%	28.6%	
ROTE	26.5%	28.9%	29.7%	32.9%	32.7%	37.0%	39.0%	40.1%	51.2%	60.9%	60.9%	
ROIC	28.9%	29.2%	28.9%	26.7%	23.7%	27.9%	28.6%	30.7%	33.8%	35.1%	36.6%	
ROCE	40.9%	42.1%	41.6%	38.6%	35.0%	33.7%	24.0%	21.3%	23.7%	24.3%	25.0%	
ROA	18.2%	18.8%	18.6%	17.3%	15.2%	17.9%	13.4%	12.1%	13.5%	13.4%	13.7%	
Leverage & Liquidity												
Obligation Ratio ⁽¹⁾	NC	NC	0.3x	0.6x	0.9x	0.7x	4.7x	2.9x	3.1x	3.7x	3.7x	
Obligation Ratio FCF ⁽¹⁾	NC	NC	0.5x	0.6x	1.0x	0.9x	4.5x	2.0x	6.0x	7.0x	7.0x	
Pay out Ratio	20.9%	22.7%	25.1%	28.0%	31.7%	27.6%	28.9%	23.3%	24.0%	37.6%	37.6%	
Per Share												
Revenue	\$36.44	\$40.96	\$45.50	\$50.66	\$56.60	\$64.07	\$69.17	\$90.44	\$109.92	\$126.66	\$127.65	
Owners Earnings	\$1.64	\$2.11	\$2.42	\$3.77	\$3.60	\$4.16	\$5.06	\$10.00	\$7.33	\$8.84	\$8.91	
Earnings	\$2.32	\$2.66	\$3.00	\$3.27	\$3.30	\$4.31	\$4.66	\$6.83	\$8.61	\$9.71	\$9.71	
Operating Cash Flow	\$2.35	\$2.93	\$3.33	\$4.86	\$4.93	\$5.62	\$6.72	\$11.87	\$9.83	\$12.10	\$12.19	
Free Cash Flow	\$0.81	\$1.78	\$1.61	\$3.17	\$2.97	\$3.37	\$4.92	\$9.37	\$4.41	\$5.20	\$5.24	
Dividends	\$0.49	\$0.61	\$0.76	\$0.92	\$1.05	\$1.20	\$1.36	\$1.50	\$2.08	\$3.68	\$3.68	
Book Value	\$8.93	\$9.48	\$10.38	\$11.11	\$11.32	\$12.82	\$13.26	\$16.55	\$17.70	\$18.49	\$18.49	
Tangible Book Value	\$8.86	\$9.41	\$10.30	\$10.15	\$10.33	\$11.80	\$12.21	\$16.07	\$17.21	\$16.20	\$16.20	
Diluted Shares	142	139	137	134	128	123	121	117	116	112	111	

For the fiscal 2022-year gross margin decreased 17bps and dropped 2%. Financials over the past couple years have been healthily stable. Operating margin has consistently been around the same level for over a decade. The net profit margin has been growing gradually from 6.4% in 2013 to 7.7% in 2022. Return on equity has nearly double since 2013 as it went from 28.9% to 56.2%. Return on capital went from 47.2% in 2013 to 26.1% in 2022, while return on invested capital traveled from 28.9 to 36.6%. The obligation ratio started at 0 in 2013 then over time increased to 3.7x, which has boosted return on equity. Free cash flow margin for 2022 was below historical levels. The reason for this is the company spending on the Life Out Strategy which will overall increase the productivity growth with Project Fusion and the side lot transformation program. During the 4th quarter \$1.6B was spent on the Life out Strategy.

Valuation



Ticker: TSCO												
Price: \$222.68												
5 Year EPS Forecast												
								P/E	Total Return Price	PV	5 YR Return	Annual Return
Bear	EPS	Current	2023	2024	2025	2026	2027	17.0x	\$251.55	\$251.55	13.0%	2.5%
		\$9.51	\$10.08	\$10.89	\$11.76	\$12.70	\$13.71	20.0x	\$292.69	\$292.69	31.4%	5.6%
		6%	8%	8%	8%	8%	8%	23.0x	\$333.83	\$333.83	49.9%	8.4%
Base	EPS	Current	2023	2024	2025	2026	2027	17.0x	\$283.46	\$283.46	27.3%	4.9%
		\$9.51	\$10.27	\$11.40	\$12.65	\$14.05	\$15.59	20.0x	\$330.24	\$330.24	48.3%	8.2%
		8%	11%	11%	11%	11%	11%	23.0x	\$377.01	\$377.01	69.3%	11.1%
Bull	EPS	Current	2023	2024	2025	2026	2027	17.0x	\$308.36	\$308.36	38.5%	6.7%
		\$9.51	\$10.46	\$11.82	\$13.36	\$15.09	\$17.06	20.0x	\$359.53	\$359.53	61.5%	10.1%
		10%	13%	13%	13%	13%	13%	23.0x	\$410.70	\$410.70	84.4%	13.0%