

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended

September 28, 2019

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from

to

Commission file number 000-23314



TRACTOR SUPPLY COMPANY

(Exact Name of Registrant as Specified in Its Charter)

Delaware

13-3139732

(State or Other Jurisdiction of Incorporation or Organization)

(I.R.S. Employer Identification No.)

5401 Virginia Way, Brentwood, Tennessee 37027

(Address of Principal Executive Offices and Zip Code)

(615) 440-4000

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes ☐ No ☒

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Trading Symbol(s)

Name of each exchange on which registered

Common Stock, \$0.008 par value

TSCO

NASDAQ Global Select Market

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class

Outstanding at October 26, 2019

Common Stock, \$.008 par value

118,386,226

TRACTOR SUPPLY COMPANY

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TRACTOR SUPPLY COMPANY **CONDENSED CONSOLIDATED BALANCE SHEETS** (in thousands, except per share amounts) *(Unaudited)*

	September 28, 2019	December 29, 2018	September 29, 2018
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 82,640	\$ 86,299	\$ 71,302
Inventories	1,812,772	1,589,542	1,737,273
Prepaid expenses and other current assets	104,486	114,447	109,478
Income taxes receivable	5,600	4,111	23,655
Total current assets	2,005,498	1,794,399	1,941,708
Property and equipment, net	1,143,071	1,134,464	1,112,049
Operating lease right-of-use assets	2,133,238	—	—
Goodwill and other intangible assets	124,492	124,492	124,492
Deferred income taxes	—	6,607	13,485
Other assets	22,997	25,300	29,200
Total assets	\$ 5,429,296	\$ 3,085,262	\$ 3,220,934
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 679,791	\$ 619,981	\$ 683,672
Accrued employee compensation	49,236	54,046	51,673
Other accrued expenses	218,774	232,416	209,199
Current portion of long-term debt	30,000	26,250	26,250
Current portion of finance lease liabilities	3,884	3,646	3,747
Current portion of operating lease liabilities	270,038	—	—
Income taxes payable	—	1,768	—
Total current liabilities	1,251,723	938,107	974,541
Long-term debt	613,885	381,100	547,505
Finance lease liabilities, less current portion	29,174	29,270	29,690
Operating lease liabilities, less current portion	1,966,363	—	—
Deferred income taxes	1,888	—	—
Deferred rent	—	107,038	108,487
Other long-term liabilities	74,441	67,927	65,414
Total liabilities	3,937,474	1,523,442	1,725,637
Stockholders' equity:			
Preferred stock	—	—	—
Common stock	1,388	1,375	1,372
Additional paid-in capital	950,908	823,413	793,090
Treasury stock	(2,970,654)	(2,480,677)	(2,420,106)
Accumulated other comprehensive income	73	3,814	5,969
Retained earnings	3,510,107	3,213,895	3,114,972
Total stockholders' equity	1,491,822	1,561,820	1,495,297
Total liabilities and stockholders' equity	\$ 5,429,296	\$ 3,085,262	\$ 3,220,934

Preferred Stock (shares in thousands): \$1.00 par value; 40 shares authorized; no shares were issued or outstanding during any period presented.

Common Stock (shares in thousands): \$0.008 par value; 400,000 shares authorized at all periods presented. 173,465, 171,887, and 171,488 shares issued; 118,480, 121,828, and 122,120 shares outstanding at September 28, 2019, December 29, 2018, and September 29, 2018, respectively.

Treasury Stock (at cost, shares in thousands): 54,985, 50,059, and 49,368 shares at September 28, 2019, December 29, 2018, and September 29, 2018, respectively.

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

TRACTOR SUPPLY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)
(Unaudited)

	For the Fiscal Three Months Ended		For the Fiscal Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Net sales	\$ 1,984,144	\$ 1,881,625	\$ 6,160,146	\$ 5,777,775
Cost of merchandise sold	1,289,904	1,228,493	4,030,177	3,791,580
Gross profit	694,240	653,132	2,129,969	1,986,195
Selling, general and administrative expenses	482,604	454,998	1,432,603	1,333,457
Depreciation and amortization	49,819	44,986	144,584	131,383
Operating income	161,817	153,148	552,782	521,355
Interest expense, net	4,900	4,460	15,006	13,906
Income before income taxes	156,917	148,688	537,776	507,449
Income tax expense	34,784	31,904	119,601	111,943
Net income	\$ 122,133	\$ 116,784	\$ 418,175	\$ 395,506
Net income per share – basic	\$ 1.03	\$ 0.96	\$ 3.48	\$ 3.22
Net income per share – diluted	\$ 1.02	\$ 0.95	\$ 3.45	\$ 3.20
Weighted average shares outstanding:				
Basic	118,956	121,876	120,180	122,818
Diluted	120,058	122,761	121,239	123,570
Dividends declared per common share outstanding	\$ 0.35	\$ 0.31	\$ 1.01	\$ 0.89

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

TRACTOR SUPPLY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(Unaudited)

	For the Fiscal Three Months Ended		For the Fiscal Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Net income	\$ 122,133	\$ 116,784	\$ 418,175	\$ 395,506
Other comprehensive (loss)/income:				
Change in fair value of interest rate swaps, net of taxes	(809)	227	(4,458)	2,611
Total other comprehensive (loss)/income	(809)	227	(4,458)	2,611
Total comprehensive income	\$ 121,324	\$ 117,011	\$ 413,717	\$ 398,117

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

TRACTOR SUPPLY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)
(Unaudited)

	Common Stock		Additional	Treasury	Accum. Other	Retained	Total
	Shares	Dollars	Paid-in	Stock	Comp. Income	Earnings	Stockholders' Equity
Stockholders' equity at December 29, 2018	121,828	\$ 1,375	\$ 823,413	\$ (2,480,677)	\$ 3,814	\$ 3,213,895	\$ 1,561,820
Common stock issuance under stock award plans & ESPP	570	5	34,727				34,732
Share-based compensation			9,624				9,624
Repurchase of shares to satisfy tax obligations			(3,026)				(3,026)
Repurchase of common stock	(1,724)			(155,319)			(155,319)
Dividends paid						(37,623)	(37,623)
Change in fair value of interest rate swaps, net of taxes					(1,464)		(1,464)
Net income						76,832	76,832
Cumulative adjustment as a result of ASU 2017-12 adoption					717	(717)	—
Stockholders' equity at March 30, 2019	120,674	\$ 1,380	\$ 864,738	\$ (2,635,996)	\$ 3,067	\$ 3,252,387	\$ 1,485,576
Common stock issuance under stock award plans & ESPP	781	6	54,693				54,699
Share-based compensation			8,776				8,776
Repurchase of shares to satisfy tax obligations			(113)				(113)
Repurchase of common stock	(1,732)			(178,916)			(178,916)
Dividends paid						(42,105)	(42,105)
Change in fair value of interest rate swaps, net of taxes					(2,185)		(2,185)
Net income						219,210	219,210
Stockholders' equity at June 29, 2019	119,723	\$ 1,386	\$ 928,094	\$ (2,814,912)	\$ 882	\$ 3,429,492	\$ 1,544,942
Common stock issuance under stock award plans & ESPP	227	2	16,110				16,112
Share-based compensation			7,355				7,355
Repurchase of shares to satisfy tax obligations			(651)				(651)
Repurchase of common stock	(1,470)			(155,742)			(155,742)
Dividends paid						(41,518)	(41,518)
Change in fair value of interest rate swaps, net of taxes					(809)		(809)
Net income						122,133	122,133
Stockholders' equity at September 28, 2019	118,480	\$ 1,388	\$ 950,908	\$ (2,970,654)	\$ 73	\$ 3,510,107	\$ 1,491,822

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

TRACTOR SUPPLY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (CONTINUED)
(in thousands)
(Unaudited)

	Common Stock		Additional	Treasury	Accum. Other	Retained	Total
	Shares	Dollars	Paid-in	Stock	Comp. Income	Earnings	Stockholders' Equity
Stockholders' equity at December 30, 2017	125,303	\$ 1,363	\$ 716,228	\$ (2,130,901)	\$ 3,358	\$ 2,828,625	\$ 1,418,673
Common stock issuance under stock award plans & ESPP	123	1	4,362				4,363
Share-based compensation			8,567				8,567
Repurchase of shares to satisfy tax obligations			(569)				(569)
Repurchase of common stock	(2,367)			(157,463)			(157,463)
Dividends paid						(33,591)	(33,591)
Change in fair value of interest rate swaps, net of taxes					1,832		1,832
Net income						71,433	71,433
Stockholders' equity at March 31, 2018	123,059	\$ 1,364	\$ 728,588	\$ (2,288,364)	\$ 5,190	\$ 2,866,467	\$ 1,313,245
Common stock issuance under stock award plans & ESPP	229	2	9,980				9,982
Share-based compensation			7,842				7,842
Repurchase of common stock	(1,477)			(95,082)			(95,082)
Dividends paid						(37,786)	(37,786)
Change in fair value of interest rate swaps, net of taxes					552		552
Net income						207,289	207,289
Stockholders' equity at June 30, 2018	121,811	\$ 1,366	\$ 746,410	\$ (2,383,446)	\$ 5,742	\$ 3,035,970	\$ 1,406,042
Common stock issuance under stock award plans & ESPP	761	6	40,355				40,361
Share-based compensation			6,378				6,378
Repurchase of shares to satisfy tax obligations			(53)				(53)
Repurchase of common stock	(452)			(36,660)			(36,660)
Dividends paid						(37,782)	(37,782)
Change in fair value of interest rate swaps, net of taxes					227		227
Net income						116,784	116,784
Stockholders' equity at September 29, 2018	122,120	\$ 1,372	\$ 793,090	\$ (2,420,106)	\$ 5,969	\$ 3,114,972	\$ 1,495,297

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

TRACTOR SUPPLY COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	For the Fiscal Nine Months Ended	
	September 28, 2019	September 29, 2018
Cash flows from operating activities:		
Net income	\$ 418,175	\$ 395,506
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	144,584	131,383
Gain on disposition of property and equipment	(262)	(285)
Share-based compensation expense	25,755	22,787
Deferred income taxes	8,495	5,009
Change in assets and liabilities:		
Inventories	(223,230)	(284,065)
Prepaid expenses and other current assets	9,961	(21,226)
Accounts payable	59,810	107,104
Accrued employee compensation	(4,810)	20,000
Other accrued expenses	(21,622)	667
Income taxes	(3,257)	(29,667)
Other	728	6,206
Net cash provided by operating activities	414,327	353,419
Cash flows from investing activities:		
Capital expenditures	(144,342)	(193,693)
Proceeds from sale of property and equipment	2,317	2,029
Net cash used in investing activities	(142,025)	(191,664)
Cash flows from financing activities:		
Borrowings under debt facilities	947,000	968,500
Repayments under debt facilities	(710,750)	(820,750)
Debt issuance costs	—	(346)
Principal payments under finance lease liabilities	(2,741)	(2,725)
Repurchase of shares to satisfy tax obligations	(3,790)	(622)
Repurchase of common stock	(489,977)	(289,205)
Net proceeds from issuance of common stock	105,543	54,706
Cash dividends paid to stockholders	(121,246)	(109,159)
Net cash used in financing activities	(275,961)	(199,601)
Net change in cash and cash equivalents	(3,659)	(37,846)
Cash and cash equivalents at beginning of period	86,299	109,148
Cash and cash equivalents at end of period	\$ 82,640	\$ 71,302
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 15,189	\$ 15,445
Income taxes	112,693	137,041
Supplemental disclosures of non-cash activities:		
Non-cash accruals for construction in progress	\$ 10,981	\$ 15,521
Operating lease assets and liabilities recognized upon adoption of ASC 842	2,084,880	—
Increase of operating lease assets and liabilities from new or modified leases	240,969	—
Increase of finance lease assets and liabilities from new or modified leases	2,883	—

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

TRACTOR SUPPLY COMPANY**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Note 1 – General:**Nature of Business

Founded in 1938, Tractor Supply Company (the “Company” or “we” or “our” or “us”) is the largest rural lifestyle retailer in the United States (“U.S.”). The Company is focused on supplying the needs of recreational farmers and ranchers and those who enjoy the rural lifestyle (which we refer to as the “*Out Here*” lifestyle), as well as tradesmen and small businesses. Stores are located primarily in towns outlying major metropolitan markets and in rural communities. The Company also owns and operates Petsense, LLC (“Petsense”), a small-box pet specialty supply retailer focused on meeting the needs of pet owners, primarily in small and mid-sized communities, and offering a variety of pet products and services. At September 28, 2019, the Company operated a total of 1,990 retail stores in 49 states (1,814 Tractor Supply and Del’s retail stores and 176 Petsense retail stores) and also offered an expanded assortment of products online at [TractorSupply.com](#) and [Petsense.com](#).

Basis of Presentation

The accompanying interim Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These statements should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 29, 2018. The results of operations for our interim periods are not necessarily indicative of results for the full fiscal year.

In the first quarter of fiscal 2019, the Company adopted lease accounting guidance as discussed in Note 7 and Note 13 to the Condensed Consolidated Financial Statements. Adoption of the new lease accounting guidance had a material impact to our Condensed Consolidated Balance Sheets and related disclosures, and resulted in the recording of additional right-of-use assets and lease liabilities of approximately \$2.08 billion as of the date of adoption. This guidance was applied using the optional transition method which allowed the Company to not recast comparative financial information but rather recognize a cumulative-effect adjustment to retained earnings as of the effective date in the period of adoption. No adjustment to retained earnings was made as a result of the adoption of this guidance. Consistent with the optional transition method, the financial information in the Condensed Consolidated Balance Sheets prior to the adoption of this new lease accounting guidance has not been adjusted and is therefore not comparable to the current period presented. The standard did not materially impact our Condensed Consolidated Statements of Income, Comprehensive Income, Stockholders’ Equity, or Cash Flows. For additional information, including the required disclosures, related to the impact of adopting this standard, see Note 7 and Note 13 to the Condensed Consolidated Financial Statements.

In the first quarter of fiscal 2019, the Company adopted Accounting Standards Update 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities,” using the modified retrospective transition method. This method allows for a cumulative effect adjustment to retained earnings, as of the effective date in the period of adoption, for previously recorded amounts of hedge ineffectiveness. Upon adoption of the guidance, we recognized a cumulative-effect adjustment of \$0.7 million, from retained earnings to accumulated other comprehensive income. The adoption of this guidance did not have a material impact on our Condensed Consolidated Financial Statements and related disclosures. For additional information on the required disclosures related to the impact of adopting this guidance, see Note 6 and Note 13 to the Condensed Consolidated Financial Statements.

Note 2 – Fair Value of Financial Instruments:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. The Company uses a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Company's financial instruments consist of cash and cash equivalents, short-term receivables, trade payables, debt instruments, and interest rate swaps. Due to their short-term nature, the carrying values of cash and cash equivalents, short-term receivables, and trade payables approximate current fair value at each balance sheet date. As described in further detail in Note 5 to the Condensed Consolidated Financial Statements, the Company had \$645.0 million, \$408.8 million, and \$575.3 million in borrowings under its debt facilities at September 28, 2019, December 29, 2018, and September 29, 2018, respectively. Based on market interest rates (Level 2 inputs), the carrying value of borrowings in our debt facilities approximates fair value for each period reported. The fair value of the Company's interest rate swaps is determined based on the present value of expected future cash flows using forward rate curves (a Level 2 input). As described in further detail in Note 6 to the Condensed Consolidated Financial Statements, the fair value of the interest rate swaps, excluding accrued interest, was a net asset of \$0.1 million, \$5.8 million, and \$8.7 million at September 28, 2019, December 29, 2018, and September 29, 2018, respectively.

Note 3 – Share-Based Compensation:

Share-based compensation includes stock options, restricted stock units, performance-based restricted share units, and certain transactions under our Employee Stock Purchase Plan (the "ESPP"). Share-based compensation expense is recognized based on grant date fair value of all stock options, restricted stock units, and performance-based restricted share units plus a 15% discount on shares purchased by employees as a part of the ESPP. The discount under the ESPP represents the difference between the purchase date market value and the employee's purchase price.

There were no significant modifications to the Company's share-based compensation plans during the fiscal nine months ended September 28, 2019.

For the third quarter of fiscal 2019 and 2018, share-based compensation expense was \$7.4 million and \$6.4 million, respectively, and \$25.8 million and \$22.8 million for the first nine months of fiscal 2019 and 2018, respectively.

Stock Options

The following table summarizes information concerning stock option grants during the first nine months of fiscal 2019:

	Fiscal Nine Months Ended	
	September 28, 2019	
Stock options granted		392,088
Weighted average exercise price	\$	89.71
Weighted average grant date fair value per option	\$	20.80

As of September 28, 2019, total unrecognized compensation expense related to non-vested stock options was approximately \$9.7 million with a remaining weighted average expense recognition period of 1.7 years.

Restricted Stock Units and Performance-Based Restricted Share Units

The following table summarizes information concerning restricted stock unit and performance-based restricted share unit grants during the first nine months of fiscal 2019:

	Fiscal Nine Months Ended	
	September 28, 2019	
Restricted stock units granted		252,905
Performance-based restricted share units granted ^(a)		58,115
Weighted average grant date fair value per share	\$	87.50

(a) Assumes 100% target level achievement of the relative performance targets.

In fiscal 2019, the Company granted awards that are subject to the achievement of specified performance goals. The performance metrics for the units are growth in net sales and growth in earnings per diluted share. The number of performance-based restricted share units presented in the foregoing table represent the shares that can be achieved at the performance metric target value. The actual number of shares that will be issued under the performance share awards, which may be higher or lower than the target, will be determined by the level of achievement of the performance goals. If the performance targets are achieved, the units will be issued based on the achievement level and the grant date fair value and will cliff vest in full on the third anniversary of the date of the grant.

As of September 28, 2019, total unrecognized compensation expense related to non-vested restricted stock units and non-vested performance-based restricted share units was approximately \$25.0 million with a remaining weighted average expense recognition period of 2.1 years.

Note 4 – Net Income Per Share:

The Company presents both basic and diluted net income per share on the Condensed Consolidated Statements of Income. Basic net income per share is calculated by dividing net income by the weighted average number of shares outstanding during the period. Diluted net income per share is calculated by dividing net income by the weighted average diluted shares outstanding during the period. Dilutive shares are computed using the treasury stock method for share-based awards. Performance-based restricted share units are included in diluted shares only if the related performance conditions are considered satisfied as of the end of the reporting period. Net income per share is calculated as follows (in thousands, except per share amounts):

	Fiscal Three Months Ended			Fiscal Three Months Ended		
	September 28, 2019			September 29, 2018		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic net income per share:	\$ 122,133	118,956	\$ 1.03	\$ 116,784	121,876	\$ 0.96
Dilutive effect of share-based awards	—	1,102	(0.01)	—	885	(0.01)
Diluted net income per share:	\$ 122,133	120,058	\$ 1.02	\$ 116,784	122,761	\$ 0.95

	Fiscal Nine Months Ended			Fiscal Nine Months Ended		
	September 28, 2019			September 29, 2018		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic net income per share:	\$ 418,175	120,180	\$ 3.48	\$ 395,506	122,818	\$ 3.22
Dilutive effect of share-based awards	—	1,059	(0.03)	—	752	(0.02)
Diluted net income per share:	\$ 418,175	121,239	\$ 3.45	\$ 395,506	123,570	\$ 3.20

Anti-dilutive stock awards excluded from the above calculations totaled approximately 0.3 million and 1.8 million shares for the fiscal three months ended September 28, 2019 and September 29, 2018, respectively, and 0.4 million and 3.4 million shares for the fiscal nine months ended September 28, 2019 and September 29, 2018, respectively.

Note 5 – Debt:

The following table summarizes the Company's outstanding debt as of the dates indicated (in millions):

	September 28, 2019	December 29, 2018	September 29, 2018
Senior Notes	\$ 150.0	\$ 150.0	\$ 150.0
Senior Credit Facility:			
February 2016 Term Loan	150.0	165.0	165.0
June 2017 Term Loan	90.0	93.8	93.8
Revolving credit loans	255.0	—	166.5
Total outstanding borrowings	645.0	408.8	575.3
Less: unamortized debt issuance costs	(1.1)	(1.4)	(1.5)
Total debt	643.9	407.4	573.8
Less: current portion of long-term debt	(30.0)	(26.3)	(26.3)
Long-term debt	\$ 613.9	\$ 381.1	\$ 547.5
Outstanding letters of credit	\$ 34.0	\$ 33.5	\$ 36.7

Senior Notes

On August 14, 2017, the Company entered into a note purchase and private shelf agreement (the “Note Purchase Agreement”), pursuant to which the Company agreed to sell \$150 million aggregate principal amount of senior unsecured notes due August 14, 2029 (the “2029 Notes”) in a private placement. The 2029 Notes bear interest at 3.70% per annum with interest payable semi-annually in arrears on each annual and semi-annual anniversary of the issuance date. The obligations under the Note Purchase Agreement are unsecured, but guaranteed by each of the Company’s material subsidiaries.

The Company may from time to time issue and sell additional senior unsecured notes (the “Shelf Notes”) pursuant to the Note Purchase Agreement, in an aggregate principal amount of up to \$150 million. The Shelf Notes will have a maturity date of no more than 12 years after the date of original issuance and may be issued through August 14, 2020, unless earlier terminated in accordance with the terms of the Note Purchase Agreement.

Pursuant to the Note Purchase Agreement, the 2029 Notes and any Shelf Notes (collectively, the “Notes”) are redeemable by the Company, in whole at any time or in part from time to time, at 100% of the principal amount of the Notes being redeemed, together with accrued and unpaid interest thereon and a make whole amount calculated by discounting all remaining scheduled payments on the Notes by the yield on the U.S. Treasury security with a maturity equal to the remaining average life of the Notes plus 0.50%.

Senior Credit Facility

On February 19, 2016, the Company entered into a senior credit facility (the “2016 Senior Credit Facility”) consisting of a \$200 million term loan (the “February 2016 Term Loan”) and a \$500 million revolving credit facility (the “Revolver”) with a sublimit of \$50 million for swingline loans. This agreement is unsecured and matures on February 19, 2022.

On June 15, 2017, pursuant to an accordion feature available under the 2016 Senior Credit Facility, the Company entered into an incremental term loan agreement (the “June 2017 Term Loan”) which increased the term loan capacity under the 2016 Senior Credit Facility by \$100 million. This agreement is unsecured and matures on June 15, 2022.

The February 2016 Term Loan of \$200 million requires quarterly payments totaling \$10 million per year in years one and two and \$20 million per year in years three through the maturity date, with the remaining balance due in full on the maturity date of February 19, 2022. The June 2017 Term Loan of \$100 million requires quarterly payments totaling \$5 million per year in years one and two and \$10 million per year in years three through the maturity date, with the remaining balance due in full on the maturity date of June 15, 2022. The 2016 Senior Credit Facility also contains a \$500 million revolving credit facility (with a sublimit of \$50 million for swingline loans).

Borrowings under the February 2016 Term Loan and Revolver bear interest at either the bank’s base rate (5.000% at September 28, 2019) or the London Inter-Bank Offer Rate (“LIBOR”) (2.032% at September 28, 2019) plus an additional amount ranging from 0.500% to 1.125% per annum (0.750% at September 28, 2019), adjusted quarterly based on our leverage ratio. The Company is also required to pay, quarterly in arrears, a commitment fee for unused capacity ranging from 0.075% to 0.200% per annum (0.125% at September 28, 2019), adjusted quarterly based on the Company’s leverage ratio. Borrowings under the June 2017 Term Loan bear interest at either the bank’s base rate (5.000% at September 28, 2019) or LIBOR (2.032% at September 28, 2019) plus an additional 1.000% per annum. As further described in Note 6 to the Condensed Consolidated Financial Statements, the Company has entered into interest rate swap agreements in order to hedge our exposure to variable rate interest payments associated with each of the term loans under the 2016 Senior Credit Facility.

Proceeds from the 2016 Senior Credit Facility may be used for working capital, capital expenditures, dividends, share repurchases, and other matters. There are no compensating balance requirements associated with the 2016 Senior Credit Facility.

Covenants and Default Provisions of the Debt Agreements

The 2016 Senior Credit Facility and the Note Purchase Agreement (collectively, the “Debt Agreements”) require quarterly compliance with respect to two material covenants: a fixed charge coverage ratio and a leverage ratio. Both ratios are calculated on a trailing twelve-month basis at the end of each fiscal quarter. The fixed charge coverage ratio compares earnings before interest, taxes, depreciation, amortization, share-based compensation, and rent expense (“consolidated EBITDAR”) to the sum of interest paid and rental expense (excluding any straight-line rent adjustments). The fixed charge coverage ratio shall be greater than or equal to 2.00 to 1.0 as of the last day of each fiscal quarter. The leverage ratio compares rental expense (excluding any straight-line rent adjustments) multiplied by a factor of six plus total debt to consolidated EBITDAR. The leverage ratio shall be less than or equal to 4.00 to 1.0 as of the last day of each fiscal quarter. The Debt Agreements also contain certain other restrictions regarding additional indebtedness, capital expenditures, business operations, guarantees, investments, mergers, consolidations and

sales of assets, prepayment of debts, transactions with subsidiaries or affiliates, and liens. As of September 28, 2019, the Company was in compliance with all debt covenants.

The Debt Agreements contain customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to other material indebtedness, certain events of bankruptcy and insolvency, material judgments, certain ERISA events, and invalidity of loan documents. Upon certain changes of control, payment under the Debt Agreements could become due and payable. In addition, under the Note Purchase Agreement, upon an event of default or change of control, the make whole payment described above may become due and payable.

The Note Purchase Agreement also requires that, in the event the Company amends its 2016 Senior Credit Facility, or any subsequent credit facility of \$100 million or greater, such that it contains covenant or default provisions that are not provided in the Note Purchase Agreement or that are similar to those contained in the Note Purchase Agreement but which contain percentages, amounts, formulas or grace periods that are more restrictive than those set forth in the Note Purchase Agreement or are otherwise more beneficial to the lenders thereunder, the Note Purchase Agreement shall be automatically amended to include such additional or amended covenants and/or default provisions.

Note 6 – Interest Rate Swaps:

The Company entered into an interest rate swap agreement which became effective on March 31, 2016, with a maturity date of February 19, 2021. The notional amount of this swap agreement began at \$197.5 million (the principal amount of the February 2016 Term Loan borrowings as of March 31, 2016) and will amortize at the same time and in the same amount as the February 2016 Term Loan borrowings, as described in Note 5 to the Condensed Consolidated Financial Statements, up to the maturity date of the interest rate swap agreement on February 19, 2021. As of September 28, 2019, the notional amount of the interest rate swap was \$150.0 million.

The Company entered into a second interest rate swap agreement which became effective on June 30, 2017, with a maturity date of June 15, 2022. The notional amount of this swap agreement began at \$100 million (the principal amount of the June 2017 Term Loan borrowings as of June 30, 2017) and will amortize at the same time and in the same amount as the June 2017 Term Loan borrowings, as described in Note 5 to the Condensed Consolidated Financial Statements. As of September 28, 2019, the notional amount of the interest rate swap was \$90.0 million.

The Company's interest rate swap agreements are executed for risk management and are not held for trading purposes. The objective of the interest rate swap agreements is to mitigate interest rate risk associated with future changes in interest rates. To accomplish this objective, the interest rate swap agreements are intended to hedge the variable cash flows associated with the variable rate term loan borrowings under the 2016 Senior Credit Facility. Both interest rate swap agreements entitle the Company to receive, at specified intervals, a variable rate of interest based on LIBOR in exchange for the payment of a fixed rate of interest throughout the life of the agreement, without exchange of the underlying notional amount.

The Company has designated its interest rate swap agreements as cash flow hedges and accounts for the underlying activity in accordance with hedge accounting. The interest rate swaps are presented within the Condensed Consolidated Balance Sheets at fair value. In accordance with hedge accounting, the gains and losses on interest rate swaps that are designated and qualify as cash flow hedges are recorded as a component of Other Comprehensive Income ("OCI"), net of related income taxes, and reclassified into earnings in the same income statement line and period during which the hedged transactions affect earnings.

As of September 28, 2019, amounts to be reclassified from Accumulated Other Comprehensive Income ("AOCI") into interest during the next twelve months are not expected to be material. No significant amounts were excluded from the assessment of cash flow hedge effectiveness as of September 28, 2019.

The assets and liabilities measured at fair value related to the Company's interest rate swaps, excluding accrued interest, were as follows (in thousands):

Derivatives Designated as Cash Flow Hedges	Balance Sheet Location	September 28, 2019	December 29, 2018	September 29, 2018
Interest rate swaps (short-term portion)	Other current assets	\$ 631	\$ 2,601	\$ 2,735
Interest rate swaps (long-term portion)	Other assets	105	3,222	5,991
Total derivative assets		\$ 736	\$ 5,823	\$ 8,726
Interest rate swaps (short-term portion)	Other accrued expenses	\$ 57	\$ —	\$ —
Interest rate swaps (long-term portion)	Other long-term liabilities	581	—	—
Total derivative liabilities		\$ 638	\$ —	\$ —

The offset to the interest rate swap asset or liability is recorded as a component of equity, net of deferred taxes, in AOCI, and will be reclassified into earnings over the term of the underlying debt as interest payments are made.

The following table summarizes the changes in AOCI, net of tax, related to the Company's interest rate swaps (in thousands):

	September 28, 2019	December 29, 2018	September 29, 2018
Beginning fiscal year AOCI balance	\$ 3,814	\$ 3,358	\$ 3,358
Current fiscal period (loss)/gain recognized in OCI	(4,458)	456	2,611
Cumulative adjustment as a result of ASU 2017-12 adoption	717	—	—
Other comprehensive (loss)/gain, net of tax	(3,741)	456	2,611
Ending fiscal period AOCI balance	\$ 73	\$ 3,814	\$ 5,969

Cash flows related to the interest rate swaps are included in operating activities on the Condensed Consolidated Statements of Cash Flows.

The following table summarizes the impact of pre-tax gains and losses derived from the Company's interest rate swaps (in thousands):

Financial Statement Location	Fiscal Three Months Ended		Fiscal Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Amount of (losses)/gains recognized in OCI during the period	\$ (841)	\$ 306	\$ (5,725)	\$ 3,511

The following table summarizes the impact of taxes affecting AOCI as a result of the Company's interest rate swaps (in thousands):

	Fiscal Three Months Ended		Fiscal Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Income tax (benefit)/expense of interest rate swaps on AOCI	\$ (32)	\$ 79	\$ (1,267)	\$ 900

Credit-risk-related contingent features

In accordance with the underlying interest rate swap agreements, the Company could be declared in default on its interest rate swap obligations if repayment of the underlying indebtedness (i.e., the Company's term loans) is accelerated by the lender due to the Company's default on such indebtedness.

If the Company had breached any of the provisions in the underlying agreements at September 28, 2019, it could have been required to post full collateral or settle its obligations under the Company's interest rate swap agreements. However, as of September 28,

2019, the Company had not breached any of these provisions or posted any collateral related to the underlying interest rate swap agreements.

Note 7 – Leases:

The Company leases the majority of its retail store locations, two distribution sites, its Merchandise Innovation Center, and certain equipment under various non-cancellable operating leases. The leases have varying terms and expire at various dates through 2037. Store leases typically have initial terms of between 10 and 15 years, with two to four optional renewal periods of five years each. The exercise of lease renewal options is at our sole discretion. The Company has included lease renewal options in the lease term for calculations of its right-of-use assets and liabilities when it is reasonably certain that the Company plans to renew these leases. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Company accounts for lease components (e.g., fixed payments including rent, real estate taxes, and insurance costs) together with nonlease components (e.g., fixed payment common-area maintenance) as a single component. Certain lease agreements require variable payments based upon actual costs of common-area maintenance, real estate taxes, and insurance. Further, certain lease agreements require variable payments based upon store sales above agreed-upon sales levels for the year and others require payments adjusted periodically for inflation. As substantially all of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement or modification date in determining the present value of lease payments.

In addition to the operating lease right-of-use assets presented on the Condensed Consolidated Balance Sheets, assets, net of accumulated amortization, under finance leases of \$29.7 million are recorded within the Property and equipment, net line on the Condensed Consolidated Balance Sheets as of September 28, 2019.

The following table summarizes the Company's classification of lease cost (in thousands):

Statement of Income Location		Fiscal Three Months Ended	Fiscal Nine Months Ended
		September 28, 2019	September 28, 2019
Finance lease cost:			
Amortization of lease assets	Depreciation and amortization	\$ 1,075	\$ 3,165
Interest on lease liabilities	Interest expense, net	407	1,207
Operating lease cost	Selling, general and administrative expenses	88,820	262,838
Variable lease cost	Selling, general and administrative expenses	18,394	55,545
Net lease cost		\$ 108,696	\$ 322,755

The following table summarizes the future maturities of the Company's lease liabilities (in thousands):

	Operating Leases ^(a)	Finance Leases	Total
2019 ^(b)	\$ 92,364	\$ 1,364	\$ 93,728
2020	358,275	5,471	363,746
2021	337,373	5,531	342,904
2022	313,814	4,409	318,223
2023	289,207	3,217	292,424
After 2023	1,348,926	23,000	1,371,926
Total lease payments	2,739,959	42,992	2,782,951
Less: Interest	(503,558)	(9,934)	(513,492)
Present value of lease liabilities	\$ 2,236,401	\$ 33,058	\$ 2,269,459

(a) Operating lease payments exclude \$168.6 million of legally binding minimum lease payments for leases signed, but not yet commenced.

(b) Excluding the nine-month period ended September 28, 2019.

The following table summarizes the Company's lease term and discount rate:

	September 28, 2019
Weighted-average remaining lease term (years):	
Finance leases	9.8
Operating leases	8.9
Weighted-average discount rate:	
Finance leases	5.2%
Operating leases	4.4%

The following table summarizes the other information related to the Company's lease liabilities (in thousands):

	Fiscal Three Months Ended September 28, 2019	Fiscal Nine Months Ended September 28, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Financing cash flows from finance leases	\$ 936	\$ 2,741
Operating cash flows from finance leases	388	1,188
Operating cash flows from operating leases	88,820	251,800

The Company adopted new lease accounting guidance in the first quarter of fiscal 2019, as discussed in Note 1 and Note 13 to the Condensed Consolidated Financial Statements, and as required, the following disclosure is provided for periods prior to adoption. As of December 29, 2018 future minimum payments, by year and in the aggregate, under leases with initial or remaining terms of one year or more consisted of the following (in thousands):

	Capital Leases	Operating Leases
2019	\$ 5,215	\$ 344,836
2020	5,234	328,589
2021	5,294	306,572
2022	4,172	284,327
2023	2,980	260,518
Thereafter	20,169	1,175,972
Total minimum lease payments	43,064	\$ 2,700,814
Amount representing interest	(10,148)	
Present value of minimum lease payments	32,916	
Less: current portion	(3,646)	
Long-term capital lease obligations	\$ 29,270	

Note 8 – Capital Stock and Dividends:

Capital Stock

The authorized capital stock of the Company consists of common stock and preferred stock. The Company is authorized to issue 400 million shares of common stock. The Company is also authorized to issue 40 thousand shares of preferred stock, with such designations, rights and preferences as may be determined from time to time by the Board of Directors.

Dividends

During the first nine months of fiscal 2019 and 2018, the Board of Directors declared the following cash dividends:

Date Declared	Dividend Amount Per Share of Common Stock	Record Date	Date Paid
August 7, 2019	\$ 0.35	August 26, 2019	September 10, 2019
May 8, 2019	\$ 0.35	May 28, 2019	June 11, 2019
February 6, 2019	\$ 0.31	February 25, 2019	March 12, 2019
August 8, 2018	\$ 0.31	August 27, 2018	September 11, 2018
May 9, 2018	\$ 0.31	May 29, 2018	June 12, 2018
February 7, 2018	\$ 0.27	February 26, 2018	March 13, 2018

It is the present intention of the Board of Directors to continue to pay a quarterly cash dividend; however, the declaration and payment of future dividends will be determined by the Board of Directors in its sole discretion and will depend upon the earnings, financial condition and capital needs of the Company, along with any other factors that the Board of Directors deems relevant.

On November 6, 2019, the Company's Board of Directors declared a quarterly cash dividend of \$0.35 per share of the Company's outstanding common stock. The dividend will be paid on December 10, 2019, to stockholders of record as of the close of business on November 25, 2019.

Note 9 – Treasury Stock:

The Company's Board of Directors has authorized common stock repurchases under a share repurchase program. On May 8, 2019, the Board of Directors authorized a \$1.5 billion increase to the existing share repurchase program, bringing the total amount authorized to \$4.5 billion, exclusive of any fees, commissions, or other expenses related to such repurchases. The repurchases may be made from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares repurchased under the program will depend on a variety of factors, including price, corporate and regulatory requirements, capital availability, and other market conditions. Repurchased shares are accounted for at cost and will be held in treasury for future issuance. The program may be limited or terminated at any time without prior notice. As of September 28, 2019, the Company had remaining authorization under the share repurchase program of \$1.53 billion, exclusive of any fees, commissions, or other expenses.

The following table provides the number of shares repurchased, average price paid per share, and total amount paid for share repurchases during the fiscal three and nine months ended September 28, 2019 and September 29, 2018, respectively (in thousands, except per share amounts):

	Fiscal Three Months Ended		Fiscal Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Total number of shares repurchased	1,470	452	4,926	4,296
Average price paid per share	\$ 105.97	\$ 81.23	\$ 99.46	\$ 67.33
Total cash paid for share repurchases	\$ 155,742	\$ 36,660	\$ 489,977	\$ 289,205

Note 10 – Income Taxes:

The Company's effective income tax rate increased to 22.2% in the third quarter of fiscal 2019 compared to 21.5% in the third quarter of fiscal 2018. The primary driver for the increase in the Company's effective income tax rate was an incremental tax benefit associated with share-based compensation in the third quarter of fiscal 2018. The effective income tax rate increased to 22.2% compared to 22.1% in the first nine months of fiscal 2019 and fiscal 2018, respectively.

Note 11 – Commitments and Contingencies:Construction and Real Estate Commitments

At September 28, 2019, there were no material commitments related to real estate or construction projects extending greater than twelve months.

Letters of Credit

At September 28, 2019, there were \$34.0 million of outstanding letters of credit under the 2016 Senior Credit Facility.

Litigation

The Company is involved in various litigation matters arising in the ordinary course of business. The Company believes that any estimated loss related to such matters has been adequately provided for in accrued liabilities, to the extent probable and reasonably estimable. Accordingly, the Company currently expects these matters will be resolved without material adverse effect on its consolidated financial position, results of operations, or cash flows.

Note 12 – Segment Reporting:

The Company has one reportable segment which is the retail sale of products that support the rural lifestyle. The following table indicates the percentage of net sales represented by each major product category during the fiscal three and nine months ended September 28, 2019 and September 29, 2018:

Product Category:	Fiscal Three Months Ended		Fiscal Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Livestock and Pet	49%	49%	48%	48%
Hardware, Tools and Truck	23	22	21	21
Seasonal, Gift and Toy Products	18	18	20	20
Clothing and Footwear	5	6	6	6
Agriculture	5	5	5	5
Total	100%	100%	100%	100%

Note 13 – New Accounting Pronouncements:*New Accounting Pronouncements Recently Adopted*

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, “Leases (Topic 842).” This update requires a dual approach for lessee accounting under which a lessee will account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability on its balance sheet, with differing methodology for income statement recognition. In January 2018, the FASB issued ASU 2018-01, “Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842.” This update permits an entity to elect an optional transition practical expedient to not evaluate land easements that exist or expired before the entity’s adoption of ASU 2016-02 and that were not accounted for as leases under previous lease guidance. In July 2018, ASU 2018-10, “Codification Improvements to Topic 842, Leases,” was issued to provide more detailed guidance and additional clarification for implementing ASU 2016-02. Furthermore, in July 2018, the FASB issued ASU 2018-11, “Leases (Topic 842): Targeted Improvements,” which provides an optional transition method in addition to the existing modified retrospective transition method by allowing a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption. These new leasing standards are effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. In March of 2019, the FASB issued ASU 2019-01, “Leases (Topic 842): Codification Improvements” which was issued to provide more detailed guidance and clarification for implementing ASU 2016-02.

The Company adopted this guidance in the first quarter of fiscal 2019 and as a part of that process, made the following elections:

- The Company elected the optional transition method which allows for the lessee to not recast comparative financial information but rather recognize a cumulative-effect adjustment to retained earnings as of the effective date in the period of adoption. No such adjustment to retained earnings was made as a result of the adoption of this guidance.
- The Company elected the package of practical expedients permitted under the transition guidance within the new standard which, among other things, allowed us to carry forward our prior lease classification under Accounting Standards Codification (“ASC”) Topic 840.
- The Company did not elect the hindsight practical expedient for all leases.
- The Company elected to make the accounting policy election for short-term leases resulting in lease payments being recorded as an expense on a straight-line basis over the lease term.
- The Company elected the land easement practical expedient.

Adoption of the new standard had a material impact to our Condensed Consolidated Balance Sheets and related disclosures, and resulted in the recording of additional right-of-use assets and lease liabilities of approximately \$2.08 billion as of the date of adoption. The standard did not materially impact our Condensed Consolidated Statements of Income, Comprehensive Income, Stockholders’ Equity, or Cash Flows.

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities,” which amends and simplifies existing guidance in order to allow companies to more accurately present the economic effects of risk management activities in the financial statements. This update expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. Additionally, the amendments in ASU 2017-12 provide new guidance about income statement classification and eliminates the requirement to separately measure and report hedge ineffectiveness. This guidance is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. The amendments in ASU 2017-12 require that an entity with cash flow or net investment hedges existing at the date of adoption apply a cumulative-effect adjustment to eliminate the separate measurement of ineffectiveness to the opening balance of retained earnings as of the beginning of the fiscal year in which the entity adopts this guidance. The amended presentation and disclosure guidance should be adopted prospectively. The Company adopted this guidance in the first quarter of fiscal 2019 and recognized a cumulative-effect adjustment of \$0.7 million from retained earnings to accumulated other comprehensive income. The adoption of this guidance did not have a material impact on our Condensed Consolidated Financial Statements and related disclosures.

In June 2018, the FASB issued ASU 2018-07, “Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting,” which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. This guidance is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. The Company adopted this guidance in the first quarter of fiscal 2019. The adoption of this guidance did not have a material impact on our Condensed Consolidated Financial Statements and related disclosures.

In October 2018, the FASB issued ASU 2018-16, “Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes” which expands the permissible benchmark interest rates to include the Secured Overnight Financing Rate (SOFR) to be eligible as a U.S. benchmark interest rate for purposes of applying hedge accounting under Topic 815, Derivatives and Hedging. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted if an entity has previously adopted ASU 2017-12. The Company adopted this guidance in the first quarter of fiscal 2019. The adoption of this guidance did not have a material impact on our Condensed Consolidated Financial Statements and related disclosures.

New Accounting Pronouncements Not Yet Adopted

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement,” which amends the disclosure requirements for fair value measurements by removing, modifying and adding certain disclosures. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its Condensed Consolidated Financial Statements and related disclosures.

In August 2018, the FASB issued ASU 2018-15, “Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.” This update clarifies the accounting treatment for fees paid by a customer in a cloud computing arrangement (hosting arrangement) by providing guidance for determining when the arrangement includes a software license. This guidance is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2019, with early adoption permitted. The amendments may be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is currently assessing the impact that adoption of this guidance will have on its Condensed Consolidated Financial Statements and related disclosures.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The following discussion and analysis should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 29, 2018. This Form 10-Q also contains forward-looking statements and information. The forward-looking statements included herein are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (the "Act"). All statements, other than statements of historical facts, which address activities, events, or developments that we expect or anticipate will or may occur in the future, including sales and earnings growth, estimated results of operations in future periods, the declaration and payment of dividends, future capital expenditures (including their amount and nature), business strategy, expansion and growth of our business operations, and other such matters are forward-looking statements. These forward-looking statements may be affected by certain risks and uncertainties, any one, or a combination of which, could materially affect the results of our operations. To take advantage of the safe harbor provided by the Act, we are identifying certain factors that could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written.

As with any business, many aspects of our operations are subject to influences outside our control. These factors include, without limitation, national, regional, and local economic conditions affecting consumer spending, the timing and acceptance of new products in the stores, the timing and mix of goods sold, purchase price volatility (including inflationary and deflationary pressures), the ability to increase sales at existing stores, the ability to manage growth and identify suitable locations, failure of an acquisition to produce anticipated results, the ability to successfully manage expenses and execute our key gross margin enhancing initiatives, the availability of favorable credit sources, capital market conditions in general, the ability to open new stores in the time, manner and number currently contemplated, the impact of new stores on our business, competition, including that from online competitors, weather conditions, the seasonal nature of our business, effective merchandising initiatives and marketing emphasis, the ability to retain vendors, reliance on foreign suppliers, the ability to attract, train, and retain qualified employees, product liability and other claims, changes in federal, state, or local regulations, the imposition of tariffs on imported products or the disallowance of tax deductions on imported products, potential judgments, fines, legal fees, and other costs, breach of information systems or theft of employee or customer data, ongoing and potential future legal or regulatory proceedings, management of our information systems, failure to develop and implement new technologies, the failure of customer-facing technology systems, business disruption including from the implementation of supply chain technologies, effective tax rate changes and results of examination by taxing authorities, the ability to maintain an effective system of internal control over financial reporting, and changes in accounting standards, assumptions, and estimates. We discuss in greater detail risk factors relating to our business in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 29, 2018. Forward-looking statements are based on our knowledge of our business and the environment in which we operate, but because of the factors listed above or other factors, actual results could differ materially from those reflected by any forward-looking statements. Consequently, all of the forward-looking statements made are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated will be realized or, even if substantially realized, that they will have the expected consequences to or effects on our business and operations. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Use of Non-GAAP Financial Measures

Tractor Supply reports its financial results in accordance with U.S. GAAP. Tractor Supply also uses certain non-GAAP measures that fall within the meaning of Securities and Exchange Commission Regulation G and Regulation S-K Item 10(e), which may provide users of the financial information with additional meaningful comparison to prior reported results. Non-GAAP measures do not have standardized definitions and are not defined by U.S. GAAP. Therefore, Tractor Supply's non-GAAP measures are unlikely to be comparable to similar measures presented by other companies. The presentation of these non-GAAP measures should not be considered in isolation from, as a substitute for, or as superior to the financial information presented in accordance with U.S. GAAP. We believe this information is useful in providing period-to-period comparisons of the results of our continuing operations.

Seasonality and Weather

Our business is seasonal. Historically, our sales and profits are the highest in the second and fourth fiscal quarters due to the sale of seasonal products. We experience our highest inventory and accounts payable balances during our first fiscal quarter for purchases of seasonal products to support the higher sales volume of the spring selling season, and again during our third fiscal quarter to support the higher sales volume of the cold-weather selling season. We believe that our business can be more accurately assessed by focusing on the performance of the halves, not the quarters, due to the fact that different weather patterns from year-

to-year can shift the timing of sales and profits between quarters, particularly between the first and second fiscal quarters and the third and fourth fiscal quarters.

Historically, weather conditions, including unseasonably warm weather in the fall and winter months and unseasonably cool weather in the spring and summer months, have affected the timing and volume of our sales and results of operations. In addition, extreme weather conditions, including snow and ice storms, flood and wind damage, hurricanes, tornadoes, extreme rain, and droughts, have impacted operating results both negatively and positively, depending on the severity and length of these conditions. Our strategy is to manage product flow and adjust merchandise assortments and depth of inventory to capitalize on seasonal demand trends.

Comparable Store Metrics

Comparable store metrics are calculated on an annual basis using sales generated from all stores open at least one year and all online sales and exclude certain adjustments to net sales. Stores closed during either of the years being compared are removed from our comparable store metrics calculations. Stores relocated during either of the years being compared are not removed from our comparable store metrics calculations. If the effect of relocated stores on our comparable store metrics calculations became material, we would remove relocated stores from the calculations.

Results of Operations

Fiscal Three Months (Third Quarter) Ended September 28, 2019 and September 29, 2018

Net sales for the third quarter of fiscal 2019 increased 5.4% to \$1.98 billion from \$1.88 billion for the third quarter of fiscal 2018. Comparable store sales for the third quarter of fiscal 2019 were \$1.94 billion, a 2.9% increase as compared to the third quarter of fiscal 2018. Comparable store sales increased 5.1% for the third quarter of fiscal 2018.

The comparable store sales results for the third quarter of fiscal 2019 included increases in comparable average transaction value and transaction count of 2.3% and 0.6%, respectively. Comparable stores sales growth was geographically broad-based, driven primarily by strength in everyday merchandise, including consumable, usable and edible products, along with growth across spring and summer seasonal categories.

In addition to comparable store sales growth for the third quarter of fiscal 2019, sales from stores open less than one year were \$50.0 million for the third quarter of fiscal 2019, which represented 2.7 percentage points of the 5.4% increase over third quarter fiscal 2018 net sales. For the third quarter of fiscal 2018, sales from stores open less than one year were \$75.6 million, which represented 4.4 percentage points of the 9.3% increase over third quarter fiscal 2017 net sales.

The following table summarizes store growth for the fiscal three months ended September 28, 2019 and September 29, 2018:

	Fiscal Three Months Ended	
	September 28, 2019	September 29, 2018
Store Count Information:		
<i>Tractor Supply</i>		
Beginning of period	1,790	1,725
New stores opened	25	23
Stores closed	(1)	—
End of period	1,814	1,748
<i>Petsense</i>		
Beginning of period	177	174
New stores opened	1	7
Stores closed	(2)	—
End of period	176	181
Consolidated, end of period	1,990	1,929
Stores relocated	1	—

The following table indicates the percentage of net sales represented by each of our major product categories for the fiscal three months ended September 28, 2019 and September 29, 2018:

Product Category:	Percent of Net Sales	
	Fiscal Three Months Ended	
	September 28, 2019	September 29, 2018
Livestock and Pet	49%	49%
Hardware, Tools and Truck	23	22
Seasonal, Gift and Toy Products	18	18
Clothing and Footwear	5	6
Agriculture	5	5
Total	100%	100%

Gross profit increased 6.3% to \$694.2 million for the third quarter of fiscal 2019 from \$653.1 million for the third quarter of fiscal 2018. As a percent of net sales, gross margin increased 28 basis points to 34.99% for the third quarter of fiscal 2019 from 34.71% for the third quarter of fiscal 2018. The increase in gross margin resulted primarily from the strength of the Company's price management program and a reduction in transportation costs as a percent of net sales.

Selling, general and administrative ("SG&A") expenses, including depreciation and amortization, increased 6.5% to \$532.4 million for the third quarter of fiscal 2019 from \$500.0 million for the third quarter of fiscal 2018. As a percent of net sales, SG&A expenses increased 26 basis points to 26.83% for the third quarter of fiscal 2019 from 26.57% for the third quarter of fiscal 2018. The increase in SG&A as a percent of net sales was primarily attributable to incremental costs associated with a new distribution facility in Frankfort, New York, an executive transition agreement and, to a lesser extent, investment in store team member wages. These SG&A increases were partially offset by lower year-over-year incentive compensation as a percent of net sales, as well as leverage in occupancy and other costs from the increase in comparable store sales. The impact of the executive transition agreement in the third quarter of fiscal 2019 was approximately \$2.9 million or 15 basis points, as a percent of net sales. Excluding the impact of the executive transition agreement, adjusted SG&A expenses were \$529.5 million, an 11 basis point increase in SG&A expenses as a percent of net sales compared to the third quarter of fiscal 2018.

The effective income tax rate increased to 22.2% for the third quarter of fiscal 2019 compared to 21.5% for the third quarter of fiscal 2018. The primary driver for the increase in the Company's effective income tax rate was an incremental tax benefit associated with share-based compensation in the third quarter of fiscal 2018. The Company expects the full fiscal year 2019 effective tax rate to be in a range between 22.4% and 22.6%.

As a result of the foregoing factors, net income for the third quarter of fiscal 2019 increased 4.6% to \$122.1 million, or \$1.02 per diluted share, as compared to net income of \$116.8 million, or \$0.95 per diluted share, for the third quarter of fiscal 2018. Excluding the after-tax impact of the executive transition agreement of approximately \$2.3 million, or \$0.02 per diluted share, adjusted net income for the third quarter of fiscal 2019 was \$124.4 million, or \$1.04 per diluted share.

Fiscal Nine Months Ended September 28, 2019 and September 29, 2018

Net sales for the first nine months of fiscal 2019 increased 6.6% to \$6.16 billion from \$5.78 billion for the first nine months of fiscal 2018. Comparable store sales for the first nine months of fiscal 2019 were \$5.99 billion, a 3.6% increase over the first nine months of fiscal 2018. Comparable store sales increased 4.9% for the first nine months of fiscal 2018.

The comparable store sales results for the first nine months of fiscal 2019 included increases in comparable average transaction value and transaction count of 2.5% and 1.1%, respectively. All geographic regions of the Company and all major product categories had positive comparable store sales growth. The increase in comparable store sales was primarily driven by strength in everyday merchandise, including consumable, usable, and edible products, along with strong demand for seasonal categories in each quarter of the year.

In addition to comparable store sales growth for the first nine months of fiscal 2019, sales from stores open less than one year were \$179.6 million for the first nine months of fiscal 2019, which represented 3.1 percentage points of the 6.6% increase over the first nine months of fiscal 2018 net sales. For the first nine months of fiscal 2018, sales from stores open less than one year

were \$229.4 million, which represented 4.3 percentage points of the 8.9% increase over the first nine months of fiscal 2017 net sales.

The following table summarizes store growth for the fiscal nine months ended September 28, 2019 and September 29, 2018:

	Fiscal Nine Months Ended	
	September 28, 2019	September 29, 2018
Store Count Information:		
<i>Tractor Supply</i>		
Beginning of period	1,765	1,685
New stores opened	50	63
Stores closed	(1)	—
End of period	1,814	1,748
<i>Petsense</i>		
Beginning of period	175	168
New stores opened	3	14
Stores closed	(2)	(1)
End of period	176	181
Consolidated, end of period	1,990	1,929
Stores relocated	2	2

The following table indicates the percentage of net sales represented by each of our major product categories for the fiscal nine months ended September 28, 2019 and September 29, 2018:

	Percent of Net Sales	
	Fiscal Nine Months Ended	
	September 28, 2019	September 29, 2018
Product Category:		
Livestock and Pet	48%	48%
Hardware, Tools and Truck	21	21
Seasonal, Gift and Toy Products	20	20
Clothing and Footwear	6	6
Agriculture	5	5
Total	100%	100%

Gross profit increased 7.2% to \$2.13 billion for the first nine months of fiscal 2019 from \$1.99 billion for the first nine months of fiscal 2018. As a percent of net sales, gross margin increased 20 basis points to 34.58% for the first nine months of fiscal 2019 from 34.38% for the first nine months of fiscal 2018. The increase in gross margin was primarily attributable to strength in the Company's price management program throughout the first nine months of the year, as well as strong sell through of seasonal categories. Transportation costs did not have a significant impact on the year-over-year change in gross margin.

Total SG&A expenses, including depreciation and amortization, increased 7.7% to \$1.58 billion for the first nine months of fiscal 2019 from \$1.46 billion for the first nine months of fiscal 2018. As a percent of net sales, SG&A expenses increased 25 basis points to 25.60% for the first nine months of fiscal 2019 from 25.35% for the first nine months of fiscal 2018. The increase in SG&A as a percent of net sales was primarily attributable to incremental costs associated with a new distribution facility in Frankfort, New York, and, to a lesser extent, investment in store team member wages. These SG&A increases were partially offset by lower year-over-year incentive compensation as a percent of net sales, as well as leverage in occupancy and other costs from the increase in comparable store sales.

The effective income tax rate increased to 22.2% for the first nine months of fiscal 2019 compared to 22.1% for the first nine months of fiscal 2018. The Company expects the full fiscal year 2019 effective tax rate to be in a range between 22.4% and 22.6%.

As a result of the foregoing factors, net income for the first nine months of fiscal 2019 increased 5.7% to \$418.2 million, or \$3.45 per diluted share, as compared to net income of \$395.5 million, or \$3.20 per diluted share, for the first nine months of fiscal 2018.

Excluding the after-tax impact of the executive transition agreement of approximately \$2.3 million, or \$0.02 per diluted share, adjusted net income for the first nine months of fiscal 2019 was \$420.5 million, or \$3.47 per diluted share.

Liquidity and Capital Resources

In addition to normal operating expenses, our primary ongoing cash requirements are for new store expansion, remodeling and relocation programs, distribution facility capacity and improvements, information technology, inventory purchases, repayment of existing borrowings under our debt facilities, share repurchases, cash dividends, and selective acquisitions as opportunities arise.

Our primary ongoing sources of liquidity are existing cash balances, cash provided from operations, remaining funds available under our debt facilities, finance and operating leases, and normal trade credit. Our inventory and accounts payable levels typically build in the first and third fiscal quarters to support the higher sales volume of the spring and cold-weather selling seasons, respectively.

The Company believes that its existing cash balances, expected cash flow from future operations, funds available under its debt facilities, finance and operating leases, and normal trade credit will be sufficient to fund its operations and its capital expenditure needs, including new store openings, store acquisitions, relocations and renovations, and distribution facility capacity, through the end of fiscal 2019.

Working Capital

At September 28, 2019, the Company had working capital of \$753.8 million, which decreased \$102.5 million from December 29, 2018, and decreased \$213.4 million from September 29, 2018. The shifts in working capital were attributable to changes in the following components of current assets and current liabilities (in millions):

	September 28, 2019	December 29, 2018	Variance	September 29, 2018	Variance
Current assets:					
Cash and cash equivalents	\$ 82.6	\$ 86.3	\$ (3.7)	\$ 71.3	\$ 11.3
Inventories	1,812.8	1,589.5	223.3	1,737.3	75.5
Prepaid expenses and other current assets	104.5	114.5	(10.0)	109.5	(5.0)
Income taxes receivable	5.6	4.1	1.5	23.6	(18.0)
Total current assets	2,005.5	1,794.4	211.1	1,941.7	63.8
Current liabilities:					
Accounts payable	679.8	620.0	59.8	683.7	(3.9)
Accrued employee compensation	49.2	54.0	(4.8)	51.6	(2.4)
Other accrued expenses	218.8	232.4	(13.6)	209.2	9.6
Current portion of long-term debt	30.0	26.3	3.7	26.3	3.7
Current portion of finance lease liabilities	3.9	3.6	0.3	3.7	0.2
Current portion of operating lease liabilities	270.0	—	270.0	—	270.0
Income taxes payable	—	1.8	(1.8)	—	—
Total current liabilities	1,251.7	938.1	313.6	974.5	277.2
Working capital	\$ 753.8	\$ 856.3	\$ (102.5)	\$ 967.2	\$ (213.4)

In comparison to December 29, 2018, working capital as of September 28, 2019, was impacted most significantly by changes in inventories, accounts payable, and the adoption of the new lease accounting standard under ASC 842.

- The increase in inventories and accounts payable resulted primarily from the purchase of additional inventory to support new store growth, as well as an increase in average inventory per store principally due to normal seasonal patterns.
- The change in operating lease liabilities is due to the adoption of the new lease accounting standard under ASC 842.

In comparison to September 29, 2018, working capital as of September 28, 2019, was impacted most significantly by changes in inventories and the adoption of the new lease accounting standard under ASC 842.

- The increase in inventories resulted primarily from the purchase of additional inventory to support new store growth. Average inventory per store increased slightly due principally to inflation, inclusive of the impact of tariffs, as well as modest growth in everyday merchandise to support positive trends in the business. Accounts payable did not fluctuate in line with the increase in inventory due to the timing of payments.
- The change in operating lease liabilities is due to the adoption of the new lease accounting standard under ASC 842.

Debt

The following table summarizes the Company's outstanding debt as of the dates indicated (in millions):

	September 28, 2019	December 29, 2018	September 29, 2018
Senior Notes	\$ 150.0	\$ 150.0	\$ 150.0
Senior Credit Facility:			
February 2016 Term Loan	150.0	165.0	165.0
June 2017 Term Loan	90.0	93.8	93.8
Revolving credit loans	255.0	—	166.5
Total outstanding borrowings	645.0	408.8	575.3
Less: unamortized debt issuance costs	(1.1)	(1.4)	(1.5)
Total debt	643.9	407.4	573.8
Less: current portion of long-term debt	(30.0)	(26.3)	(26.3)
Long-term debt	\$ 613.9	\$ 381.1	\$ 547.5
Outstanding letters of credit	\$ 34.0	\$ 33.5	\$ 36.7

For additional information about the Company's debt and credit facilities, refer to Note 5 to the Condensed Consolidated Financial Statements. Refer to Note 6 to the Condensed Consolidated Financial Statements for information about the Company's interest rate swap agreements.

Operating Activities

Operating activities provided net cash of \$414.3 million and \$353.4 million in the first nine months of fiscal 2019 and fiscal 2018, respectively. The \$60.9 million increase in net cash provided by operating activities in the first nine months of fiscal 2019 compared to the first nine months of fiscal 2018 is due to changes in the following operating activities (in millions):

	Fiscal Nine Months Ended		
	September 28, 2019	September 29, 2018	Variance
Net income	\$ 418.2	\$ 395.5	\$ 22.7
Depreciation and amortization	144.6	131.4	13.2
Share-based compensation expense	25.8	22.8	3.0
Deferred income taxes	8.5	5.0	3.5
Inventories and accounts payable	(163.4)	(177.0)	13.6
Prepaid expenses and other current assets	10.0	(21.2)	31.2
Accrued expenses	(26.4)	20.7	(47.1)
Income taxes	(3.3)	(29.7)	26.4
Other, net	0.3	5.9	(5.6)
Net cash provided by operating activities	<u>\$ 414.3</u>	<u>\$ 353.4</u>	<u>\$ 60.9</u>

The \$60.9 million increase in net cash provided by operating activities in the first nine months of fiscal 2019 compared with the first nine months of fiscal 2018 resulted principally from incremental profitability and new store growth, in addition to the net impact of changes in our operating assets and liabilities which fluctuated due primarily to the timing of payments.

Investing Activities

Investing activities used net cash of \$142.0 million and \$191.7 million in the first nine months of fiscal 2019 and fiscal 2018, respectively. The \$49.7 million decrease in net cash used in investing activities primarily reflects a decrease in capital expenditures in the first nine months of fiscal 2019 compared to fiscal 2018.

Capital expenditures for the first nine months of fiscal 2019 and fiscal 2018 were as follows (in millions):

	Fiscal Nine Months Ended	
	September 28, 2019	September 29, 2018
Information technology	\$ 66.5	\$ 62.4
New and relocated stores and stores not yet opened	38.6	52.1
Existing stores	23.5	25.8
Distribution center capacity and improvements	14.3	53.2
Corporate and other	1.4	0.2
Total capital expenditures	\$ 144.3	\$ 193.7

The spending on information technology represents continued support of our store growth and our omni-channel initiatives, as well as improvements in security and compliance, enhancements to our customer relationship management program, and other strategic initiatives.

Spending on existing stores principally reflects routine refresh activity. In the first nine months of fiscal 2019, the Company opened 50 new Tractor Supply stores compared to 63 new Tractor Supply stores during the first nine months of fiscal 2018. The Company also opened three new Petsense stores during the first nine months of fiscal 2019 compared to 14 new Petsense stores during the first nine months of fiscal 2018. We expect to open approximately 80 new Tractor Supply stores during fiscal 2019 compared to 80 new Tractor Supply stores in fiscal 2018. We also expect to open approximately 10 new Petsense stores during fiscal 2019 compared to 18 new Petsense stores in fiscal 2018.

Spending for distribution center capacity and improvements was higher in the first nine months of fiscal 2018 due to the construction of our new northeast distribution center in Frankfort, New York, and the expansion of our distribution center in Waverly, Nebraska. The new northeast distribution center in Frankfort, New York began shipping merchandise to our stores in the first quarter of fiscal 2019. The expansion of the Waverly, Nebraska distribution center was completed in the first quarter of fiscal 2018.

Financing Activities

Financing activities used net cash of \$276.0 million and \$199.6 million in the first nine months of fiscal 2019 and fiscal 2018, respectively. The \$76.4 million change in net cash used in financing activities in the first nine months of fiscal 2019 compared to the first nine months of fiscal 2018 is due to changes in the following (in millions):

	Fiscal Nine Months Ended		
	September 28, 2019	September 29, 2018	Variance
Net borrowings and repayments under debt facilities	\$ 236.3	\$ 147.8	\$ 88.5
Repurchase of common stock	(490.0)	(289.2)	(200.8)
Net proceeds from issuance of common stock	105.5	54.7	50.8
Cash dividends paid to stockholders	(121.2)	(109.2)	(12.0)
Other, net	(6.6)	(3.7)	(2.9)
Net cash used in financing activities	\$ (276.0)	\$ (199.6)	\$ (76.4)

The \$76.4 million change in net cash used in financing activities in the first nine months of fiscal 2019 compared with the first nine months of fiscal 2018 is due to an increase in repurchases of common stock and quarterly cash dividends. This was partially offset by an increase in borrowings, net of repayments, under our debt facilities as well as an increase in net proceeds from the issuance of common stock stemming from the exercise of stock awards.

Dividends

During the first nine months of fiscal 2019 and 2018, the Board of Directors declared the following cash dividends:

Date Declared	Dividend Amount Per Share of Common Stock	Record Date	Date Paid
August 7, 2019	\$ 0.35	August 26, 2019	September 10, 2019
May 8, 2019	\$ 0.35	May 28, 2019	June 11, 2019
February 6, 2019	\$ 0.31	February 25, 2019	March 12, 2019
August 8, 2018	\$ 0.31	August 27, 2018	September 11, 2018
May 9, 2018	\$ 0.31	May 29, 2018	June 12, 2018
February 7, 2018	\$ 0.27	February 26, 2018	March 13, 2018

It is the present intention of the Board of Directors to continue to pay a quarterly cash dividend; however, the declaration and payment of future dividends will be determined by the Board of Directors in its sole discretion and will depend upon the earnings, financial condition and capital needs of the Company, along with any other factors that the Board of Directors deems relevant.

On November 6, 2019, the Company's Board of Directors declared a quarterly cash dividend of \$0.35 per share of the Company's outstanding common stock. The dividend will be paid on December 10, 2019, to stockholders of record as of the close of business on November 25, 2019.

Share Repurchase Program

The Company's Board of Directors has authorized common stock repurchases under a share repurchase program. On May 8, 2019, the Board of Directors authorized a \$1.5 billion increase to the existing share repurchase program, bringing the total amount authorized to \$4.5 billion, exclusive of any fees, commissions, or other expenses related to such repurchases. The repurchases may be made from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares repurchased under the program will depend on a variety of factors, including price, corporate and regulatory requirements, capital availability, and other market conditions. Repurchased shares are accounted for at cost and will be held in treasury for future issuance. The program may be limited or terminated at any time without prior notice. As of September 28, 2019, the Company had remaining authorization under the share repurchase program of \$1.53 billion, exclusive of any fees, commissions, or other expenses.

The following table provides the number of shares repurchased, average price paid per share, and total amount paid for share repurchases during the fiscal three and nine months ended September 28, 2019 and September 29, 2018, respectively (in thousands, except per share amounts):

	Fiscal Three Months Ended		Fiscal Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Total number of shares repurchased	1,470	452	4,926	4,296
Average price paid per share	\$ 105.97	\$ 81.23	\$ 99.46	\$ 67.33
Total cash paid for share repurchases	\$ 155,742	\$ 36,660	\$ 489,977	\$ 289,205

Off-Balance Sheet Arrangements

The Company's off-balance sheet arrangements are limited to outstanding letters of credit. Letters of credit allow the Company to purchase inventory, primarily sourced overseas, in a timely manner and support certain risk management programs.

Significant Contractual Obligations and Commercial Commitments

At September 28, 2019, there were no material commitments related to real estate or construction projects extending greater than twelve months.

At September 28, 2019, there were \$34.0 million of outstanding letters of credit under the 2016 Senior Credit Facility.

Significant Accounting Policies and Estimates

Management's discussion and analysis of the Company's financial position and results of operations are based upon its Condensed Consolidated Financial Statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires management to make informed estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company's significant accounting policies, including areas of critical management judgments and estimates, have primary impact on the following financial statement areas:

- Inventory valuation	- Impairment of long-lived assets
- Self-insurance reserves	- Impairment of goodwill and other indefinite-lived intangible assets

See the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 29, 2018, for a discussion of the Company's critical accounting policies. The Company's financial position and/or results of operations may be materially different when reported under different conditions or when using different assumptions in the application of such policies. In the event estimates or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information.

New Accounting Pronouncements

Refer to Note 13 to the Condensed Consolidated Financial Statements for recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted as of September 28, 2019.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are exposed to interest rate changes, primarily as a result of borrowings under our 2016 Senior Credit Facility (as discussed in Note 5 to the Condensed Consolidated Financial Statements) which bear interest based on variable rates.

As discussed in Note 6 to the Condensed Consolidated Financial Statements, we entered into interest rate swap agreements which are intended to mitigate interest rate risk associated with future changes in interest rates for the term loan borrowings under the 2016 Senior Credit Facility. As a result of these interest rate swaps, our exposure to interest rate volatility is minimized. The interest rate swap agreements have been executed for risk management purposes and are not held for trading purposes.

A 1% change in interest rates on our variable rate debt in excess of that amount covered by the interest rate swaps would have affected interest expense by approximately \$0.4 million and \$0.3 million for the three months ended September 28, 2019 and September 29, 2018, respectively, and \$1.3 million for each of the nine months ended September 28, 2019 and September 29, 2018, respectively.

Purchase Price Volatility

Although we cannot determine the full effect of inflation and deflation on our operations, we believe our sales and results of operations are affected by both. We are subject to market risk with respect to the pricing of certain products and services, which include, among other items, grain, corn, steel, petroleum, cotton, and other commodities, as well as transportation services. Therefore, we may experience both inflationary and deflationary pressure on product cost, which may impact consumer demand and, as a result, sales and gross margin. Our strategy is to reduce or mitigate the effects of purchase price volatility principally by taking advantage of vendor incentive programs, growing economies of scale from increased volume of purchases, adjusting retail prices and selectively buying from the most competitive vendors without sacrificing quality.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We carried out an evaluation required by the Securities Exchange Act of 1934, as amended (the "1934 Act"), under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the 1934 Act) as of September 28, 2019. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of September 28, 2019, our disclosure controls and procedures were effective.

Internal Control over Financial Reporting

We adopted the new lease accounting standard under ASC 842 as of December 30, 2018 (see Note 1 and Note 13 to the Condensed Consolidated Financial Statements). As a result, we updated accounting policies affected by ASC 842 and modified internal controls over financial reporting related to ASC 842.

There were no other changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**Item 1. Legal Proceedings**

The Company is involved in various litigation matters arising in the ordinary course of business. The Company believes that any estimated loss related to such matters has been adequately provided for in accrued liabilities, to the extent probable and reasonably estimable. Accordingly, the Company currently expects these matters will be resolved without material adverse effect on its consolidated financial position, results of operations, or cash flows.

Item 1A. Risk Factors

There have been no material changes to our risk factors as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 29, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchases of Equity Securities**

Stock repurchase activity during the third quarter of fiscal 2019 was as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
June 30, 2019 - July 27, 2019	522,500	\$ 111.14	522,500	\$ 1,627,756,098
July 28, 2019 - August 24, 2019 (a)	829,114	104.01	828,200	1,541,623,548
August 25, 2019 - September 28, 2019 (a)	124,480	97.05	119,013	1,530,099,430
Total	1,476,094	\$ 105.95	1,469,713	\$ 1,530,099,430

(a) The number of shares purchased and average price paid per share includes 914 and 5,467 shares withheld from vested restricted stock units to satisfy employees' minimum statutory tax withholding requirements for the periods of July 28, 2019 - August 24, 2019 and August 25, 2019 - September 28, 2019, respectively.

Share repurchases were made pursuant to the share repurchase program described under Part I Item 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations. We expect to implement the balance of the repurchase program through purchases made from time to time either in the open market or through private transactions, in accordance with regulations of the SEC and other applicable legal requirements.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit

10.1	Second Amended and Restated Employment Agreement, dated August 22, 2019, by and between Tractor Supply Company and Gregory A. Sandfort (filed as Exhibit 10.1 to the Current Report on Form 8-K filed with the Commission on August 23, 2019, Commission File No. 000-23314, and incorporated herein by reference). +
10.2	Second Amended and Restated Employment Agreement, dated August 22, 2019, by and between Tractor Supply Company and Gregory A. Sandfort (filed as Exhibit 10.1 to the Current Report on Form 8-K/A filed with the Commission on August 23, 2019, Commission File No. 000-23314, and incorporated herein by reference). +
10.3	Transition Agreement, dated September 3, 2019, by and between Tractor Supply Company and Steve K. Barbarick (filed as Exhibit 10.1 to the Current Report on Form 8-K filed with the Commission on September 6, 2019, Commission File No. 000-23314, and incorporated herein by reference). +
31.1*	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 28, 2019, formatted in Inline XBRL (included in Exhibit 101).
*	Filed herewith
+	Management contract or compensatory plan or arrangement

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TRACTOR SUPPLY COMPANY

Date: November 7, 2019

By: /s/ Kurt D. Barton

Kurt D. Barton

Executive Vice President - Chief Financial Officer and Treasurer

(Duly Authorized Officer and Principal Financial Officer)

CERTIFICATIONS

I, Gregory A. Sandfort, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tractor Supply Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2019

/s/ Gregory A. Sandfort

Gregory A. Sandfort

Chief Executive Officer

CERTIFICATIONS

I, Kurt D. Barton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tractor Supply Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2019

/s/ Kurt D. Barton

Kurt D. Barton

Executive Vice President - Chief Financial Officer and Treasurer

CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. SECTION 1350)

In connection with the Quarterly Report ("Report") of Tractor Supply Company (the "Company") on Form 10-Q for the fiscal quarter ended September 28, 2019, as filed with the Securities and Exchange Commission on the date hereof, we, Gregory A. Sandfort, Chief Executive Officer, and Kurt D. Barton, Chief Financial Officer and Treasurer, of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. section 1350), that:

- (1) The Report fully complies with the requirements of section 13(a) and 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 7, 2019

/s/ Gregory A. Sandfort

Gregory A. Sandfort
Chief Executive Officer

/s/ Kurt D. Barton

Kurt D. Barton
Executive Vice President - Chief Financial Officer and Treasurer