Tractor Supply Company (TSCO)

Updated July 31st, 2023 by Samuel Smith

Key Metrics

Current Price:	$223	**5 Year CAGR Estimate:**	7.2%	**Market Cap:**	$25 B
Fair Value Price:	$196	**5 Year Growth Estimate:**	8.1%	**Ex-Dividend Date:**	8/24/23[1]
% Fair Value:	114%	**5 Year Valuation Multiple Estimate:**	-2.6%	**Dividend Payment Date:**	9/14/23[2]
Dividend Yield:	1.8%	**5 Year Price Target**	$289	**Years Of Dividend Growth:**	13
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Tractor Supply Company is a retailer that sells farm and ranch products. Its customers include recreational farmers & ranchers, tradesmen and small businesses. Its offerings include clothing, pet supplies, trailers and accessories, lawn & garden supplies, heating systems, tools, fencing, lawnmowers, and power generators. The company was founded in 1938, is headquartered in Brentwood, TN, and is currently valued at market cap of $25 billion.

Tractor Supply reported its financial results for its second quarter on July 27th, 2023. In the second quarter of 2023, the retailer reported a 7.2% increase in net sales to $4.18 billion, driven by contributions from acquisitions, new store openings, and growth in comparable store sales. Comparable store sales increased 2.5%, mainly fueled by core year-round merchandise, offsetting softness in seasonal goods and big-ticket items. Gross profit rose 9.3% to $1.51 billion, with a gross margin increase of 69 basis points to 36.2%, attributed to ongoing low-price strategies and improvements in the supply chain. Net income increased 6.2% to $421.2 million, with diluted earnings per share at $3.83, below the consensus estimate of $3.92. For the full year, the company projects lower comparable sales growth of +1.3% to +2.5% and EPS of $10.20 to $10.40.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.32	$2.66	$3.00	$3.27	$3.33	$4.31	$4.68	$6.87	$8.61	$9.61	***$10.30***	***$15.20***
DPS	$0.36	$0.49	$0.61	$0.76	$0.92	$1.20	$1.36	$1.50	$2.08	$3.68	***$4.12***	***$6.35***
Shares[1]	140	136	134	131	125	121	117	116	114	111	***109***	***102***

Tractor Supply has recorded very compelling growth through the last decade. Its earnings-per-share rose by mid-teens annually from 2013-2022. 2022's earnings-per-share were over four times as high as what the company earned during 2013.

This growth was made possible by several contributing factors, including comparable store sales growth, the opening of new stores, margin expansion, and share repurchases. These factors will likely persist going forward, which is why the earnings-per-share growth outlook for Tractor Supply remains pretty high despite the company facing very tough comparable metrics and a potential economic downturn in the coming years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	23.6	25.8	25.4	29.1	25.5	19.1	19.0	20.5	19.7	26.2	***21.7***	***19.0***
Avg. Yld.	0.5%	0.6%	0.7%	0.7%	0.9%	1.4%	1.5%	1.4%	1.1%	1.0%	***1.8%***	***2.2%***

Tractor Supply operates in an attractive niche market of the large brick-and-mortar retail industry. The company has produced consistent and attractive growth over the last decade, which is why it is not surprising to see shares trading at

[1] Estimate

[2] Estimate

1. Shares in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

a comparatively high valuation relative to how other brick and mortar retailers are valued. After slightly reducing our fair value multiple estimates to account for rising interest rates, the increased prospect of a recession, and the expectation of decelerating growth rates in the near term as the company faces abnormally high comparable numbers, we see shares as trading above fair value.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	16%	18%	20%	23%	28%	28%	29%	22%	24%	38%	**40%**	**42%**

Since 2011, Tractor Supply has paid dividends, and the payout has risen considerably since. This was made possible by a combination of earnings growth, share buybacks, and a rising payout ratio.

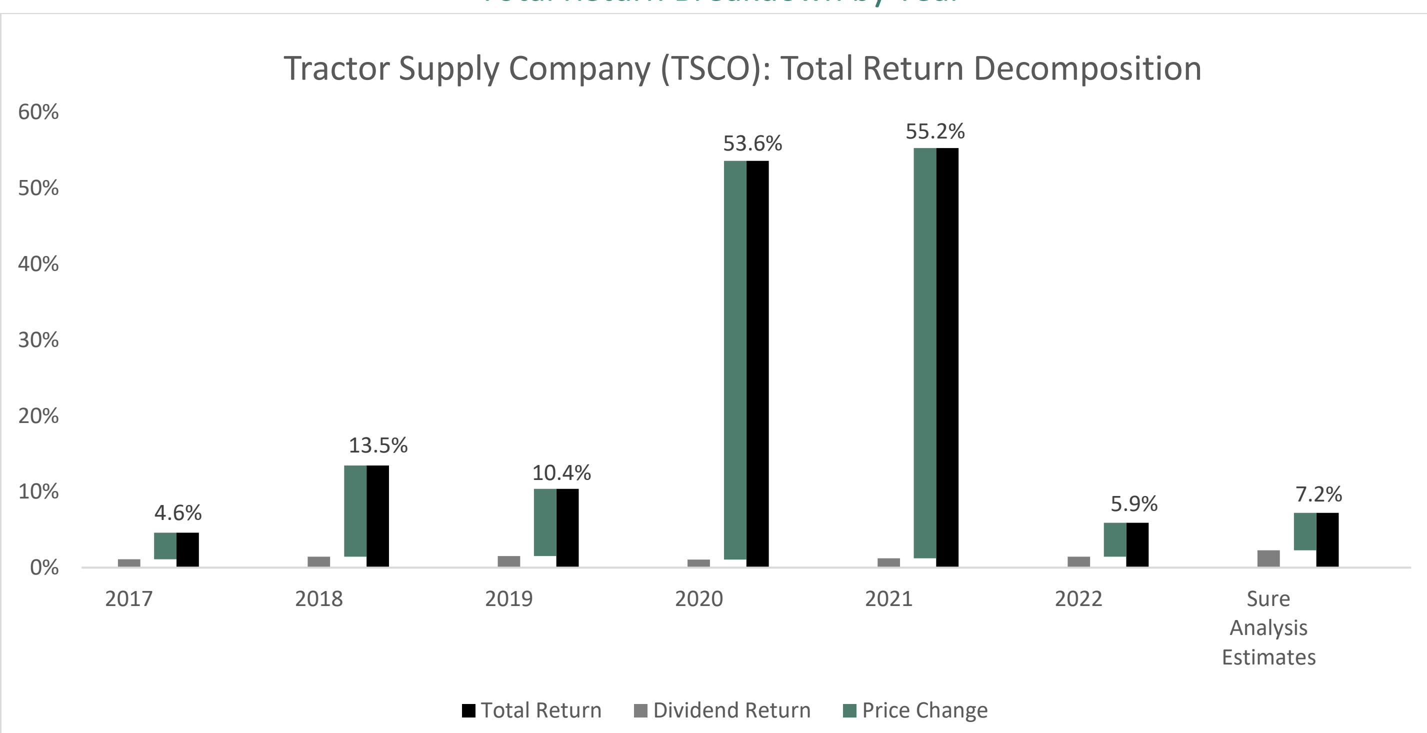
Many brick-and-mortar retailers feel the impact that Amazon (AMZN) and other online retailers are having on traffic at their stores, but Tractor Supply is relatively safe from the e-commerce threat. Many of the items the company sells are large and complex, and therefore not easily purchased online or shipped to customers' homes. This serves as a major advantage versus many other brick-and-mortar retailers.

Tractor Supply also does not have a lot of competition in the niche market it serves. Profits declined by 10% from 2007 to 2008, during a recession, but recovered quickly and hit a new record high in 2009. We believe that Tractor Supply is not as vulnerable to recessions and economic downturns as other retail industries.

Final Thoughts & Recommendation

Tractor Supply is a strong company with a significant growth runway still ahead of it. That said, the shares appear to be overvalued at the moment, and we expect annualized total returns moving forward of 7.2% through the next half decade as a result of multiple compression and a decelerating growth rate. We therefore rate the stock as a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	5,165	5,712	6,227	6,780	7,256	7,911	8,352	10,620	12,731	14,205
Gross Profit	1,754	1,950	2,143	2,325	2,492	2,703	2,872	3,762	4,477	4,972
Gross Margin	34.0%	34.1%	34.4%	34.3%	34.3%	34.2%	34.4%	35.4%	35.2%	35.0%
SG&A Exp.	1,139	1,246	1,369	1,488	1,640	1,823	1,933	2,479	2,900	3,194
D&A Exp.	100	115	124	143	166	177	196	217	270	343
Operating Profit	515	589	651	694	686	702	743	1,066	1,307	1,435
Operating Margin	10.0%	10.3%	10.4%	10.2%	9.5%	8.9%	8.9%	10.0%	10.3%	10.1%
Net Profit	328	371	410	437	423	532	562	749	997	1,089
Net Margin	6.4%	6.5%	6.6%	6.4%	5.8%	6.7%	6.7%	7.1%	7.8%	7.7%
Free Cash Flow	115	249	220	425	381	416	594	1,101	510	584
Income Tax	186	217	237	251	250	151	161	219	283	316

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,903	2,035	2,371	2,675	2,869	3,085	5,289	7,049	7,767	8,490
Cash & Equivalents	143	51	64	54	109	86	84	1,342	878	203
Inventories	979	1,115	1,284	1,370	1,453	1,590	1,603	1,783	2,191	2,710
Goodwill & Int. Ass.	10	10	10	126	124	124	124	56	56	253
Total Liabilities	656	741	978	1,222	1,450	1,523	3,722	5,125	5,765	6,448
Accounts Payable	316	371	427	520	577	620	643	976	1,156	1,398
Long-Term Debt	-	-	150	274	426	407	396	984	986	1,164
Shareholder's Equity	1,247	1,294	1,393	1,453	1,419	1,562	1,567	1,924	2,003	2,042
LTD/E Ratio	-	-	0.11	0.19	0.30	0.26	0.25	0.51	0.49	0.57

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	18.2%	18.8%	18.6%	17.3%	15.2%	17.9%	13.4%	12.1%	13.5%	13.4%
Return on Equity	28.9%	29.2%	30.5%	30.7%	29.4%	35.7%	35.9%	42.9%	50.8%	53.8%
ROIC	28.9%	29.2%	28.9%	26.7%	23.7%	27.9%	28.6%	30.7%	33.8%	35.1%
Shares Out.	140	136	134	131	125	121	117	116	114	111
Revenue/Share	36.44	40.96	45.50	50.66	56.60	64.07	69.17	90.44	109.92	126.66
FCF/Share	0.81	1.78	1.61	3.17	2.97	3.37	4.92	9.37	4.41	5.20

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.