Tractor Supply Company (TSCO)

Updated August 20th, 2024 by Samuel Smith

Key Metrics

Current Price:	$265	**5 Year CAGR Estimate:**	4.0%	**Market Cap:**	$29 B
Fair Value Price:	$194	**5 Year Growth Estimate:**	8.7%	**Ex-Dividend Date:**	8/26/24
% Fair Value:	136%	**5 Year Valuation Multiple Estimate:**	-6.0%	**Dividend Payment Date:**	9/10/24
Dividend Yield:	1.7%	**5 Year Price Target**	$295	**Years Of Dividend Growth:**	14
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 $29 billion.

Tractor Supply Company (TSCO) reported its financial results for the second quarter ending June 29, 2024, with an EPS of $3.93, surpassing expectations by $0.01, and revenue of $4.25 billion, which represented a 1.48% year-over-year increase but fell short by $37.18 million. The net sales increase of 1.5% to $4.25 billion from $4.18 billion in the same period last year was driven by new store openings, although comparable store sales declined by 0.5%. This decline in comparable store sales was attributed to a 0.6% decrease in average transaction count, partially offset by a 0.1% increase in average ticket size. Strength was observed in seasonal merchandise, including big-ticket items, but this was countered by declines in year-round discretionary categories. Consumable, usable, and edible products saw modest negativity due to average unit price pressure despite positive unit growth. Gross profit rose by 2.7% to $1.56 billion from $1.51 billion in the previous year's second quarter, with the gross margin increasing by 43 basis points to 36.6%. This improvement was primarily due to lower transportation costs, disciplined product cost management, and the execution of an everyday low price strategy. These gains were partially offset by the growth in big-ticket categories, which have below chain-average margins. SG&A expenses, including depreciation and amortization, grew by 4.1% to $994.2 million from $955.4 million, and as a percentage of net sales, SG&A expenses increased by 58 basis points to 23.4% from 22.8%. This increase was primarily due to planned growth investments, the onboarding of a new distribution center, higher depreciation and amortization, and modest deleverage of fixed costs due to the decline in comparable store sales. These were partly mitigated by productivity improvements and strong cost control, with the ongoing sale-leaseback strategy benefiting SG&A by approximately 12 basis points net of transaction and repair costs from the sale of two locations.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.66	$3.00	$3.27	$3.33	$4.31	$4.68	$6.87	$8.61	$9.61	$10.09	***$10.23***	***$15.50***
DPS	$0.49	$0.61	$0.76	$0.92	$1.20	$1.36	$1.50	$2.08	$3.68	$4.12	***$4.40***	***$6.50***
Shares[1]	136	134	131	125	121	117	116	113	110	108	***108***	***102***

Tractor Supply has recorded very compelling growth through the last decade. Its earnings-per-share rose by mid-teens annually from 2014-2023. 2023's earnings-per-share were nearly four times as high as what the company earned during 2014.

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.

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.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	25.8	25.4	29.1	25.5	19.1	19.0	20.5	19.7	26.2	18.6	***25.9***	***19.0***
Avg. Yld.	0.6%	0.7%	0.7%	0.9%	1.4%	1.5%	1.4%	1.1%	1.0%	2.2%	***1.7%***	***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. 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	18%	20%	23%	28%	28%	29%	22%	24%	38%	41%	***43%***	***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.

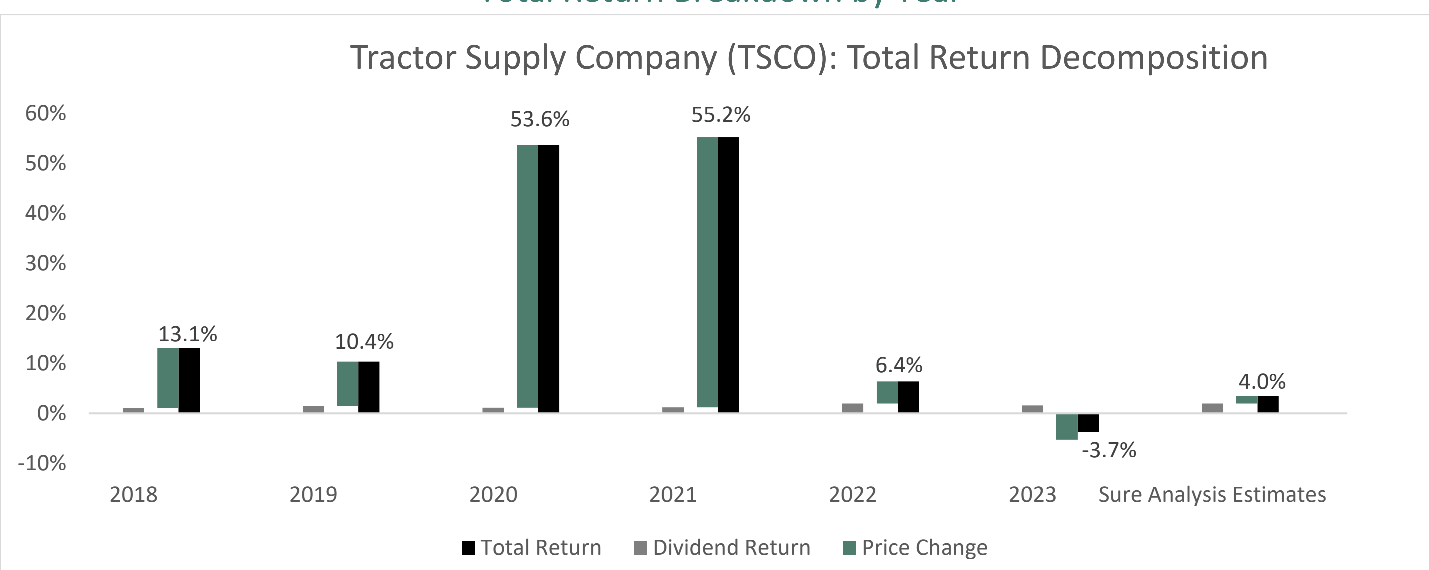
Many brick-and-mortar retailers feel the impact that Amazon (AMZN) and other online retailers are having on traffic at their stores, but Tractor Supply is relatively safe from the e-commerce threat. Many of the items the company sells are large and complex, and therefore not easily purchased online or 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. Given that we expect annualized total returns moving forward of 4% through the next half decade as a result of strong growth and a small but growing dividend, partially offset by expected multiple compression, we rate the stock a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	5,712	6,227	6,780	7,256	7,911	8,352	10,620	12,731	14,205	14,556
Gross Profit	1,950	2,143	2,325	2,492	2,703	2,872	3,762	4,477	4,972	5,228
Gross Margin	34.1%	34.4%	34.3%	34.3%	34.2%	34.4%	35.4%	35.2%	35.0%	35.9%
SG&A Exp.	1,246	1,369	1,488	1,640	1,823	1,933	2,479	2,900	3,194	3,356
D&A Exp.	115	124	143	166	177	196	217	270	343	393
Operating Profit	589	651	694	686	702	743	1,066	1,307	1,435	1,479
Operating Margin	10.3%	10.4%	10.2%	9.5%	8.9%	8.9%	10.0%	10.3%	10.1%	10.2%
Net Profit	371	410	437	423	532	562	749	997	1,089	1,107
Net Margin	6.5%	6.6%	6.4%	5.8%	6.7%	6.7%	7.1%	7.8%	7.7%	7.6%
Free Cash Flow	249	220	425	381	416	594	1,101	510	584	580
Income Tax	217	237	251	250	151	161	219	283	316	325

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2,035	2,371	2,675	2,869	3,085	5,289	7,049	7,767	8,490	9,156
Cash & Equivalents	51	64	54	109	86	84	1,342	878	203	397
Inventories	1,115	1,284	1,370	1,453	1,590	1,603	1,783	2,191	2,710	2,646
Goodwill & Int. Ass.	10	10	126	124	124	124	56	56	253	270
Total Liabilities	741	978	1,222	1,450	1,523	3,722	5,125	5,765	6,448	7,006
Accounts Payable	371	427	520	577	620	643	976	1,156	1,398	1,180
Long-Term Debt	-	150	274	426	407	396	984	986	1,164	1,729
Shareholder's Equity	1,294	1,393	1,453	1,419	1,562	1,567	1,924	2,003	2,042	2,150
LTD/E Ratio	-	0.11	0.19	0.30	0.26	0.25	0.51	0.49	0.57	0.80

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	18.8%	18.6%	17.3%	15.2%	17.9%	13.4%	12.1%	13.5%	13.4%	12.5%
Return on Equity	29.2%	30.5%	30.7%	29.4%	35.7%	35.9%	42.9%	50.8%	53.8%	52.8%
ROIC	29.2%	28.9%	26.7%	23.7%	27.9%	28.6%	30.7%	33.8%	35.1%	31.3%
Shares Out.	136	134	131	125	121	117	116	114	111	108
Revenue/Share	40.96	45.50	50.66	56.60	64.07	69.17	90.44	109.92	126.66	132.63
FCF/Share	1.78	1.61	3.17	2.97	3.37	4.92	9.37	4.41	5.20	5.29

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

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