Tractor Supply Company (TSCO)

Updated November 8th, 2024 by Samuel Smith

Key Metrics

Current Price:	$289	**5 Year CAGR Estimate:**	3.2%	**Market Cap:**	$31 B
Fair Value Price:	$205	**5 Year Growth Estimate:**	8.7%	**Ex-Dividend Date:**	11/25/24
% Fair Value:	141%	**5 Year Valuation Multiple Estimate:**	-6.7%	**Dividend Payment Date:**	12/10/24
Dividend Yield:	1.5%	**5 Year Price Target**	$310	**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 $31 billion.

For the third quarter of 2024, Tractor Supply reported net sales growth of 1.6%, reaching $14.85 billion to $15 billion for the fiscal year, with diluted earnings per share (EPS) of $2.24. Comparable-store sales were slightly down by 0.2%, driven by a 0.3% increase in transactions offset by a 0.5% decline in average ticket size. The company maintained a strong performance in its Neighbor's Club loyalty program, boasting over 37 million members with high retention rates and record sales penetration.

Tractor Supply executed a strategic acquisition by entering a definitive agreement to acquire Allivet, a leading online pet pharmacy, enhancing its total addressable market by approximately $15 billion. This acquisition is expected to be accretive to earnings in 2025 and aligns with the company's Life Out Here strategy, aimed at expanding its product offerings and market reach. Additionally, Tractor Supply raised its wind repowering target to 1.9 gigawatts through 2026, demonstrating its commitment to sustainable growth and capital efficiency.

The company continued to invest in its supply chain, adding 2 million square feet to distribution center capacity and improving inventory management, resulting in a 20% structural improvement in STEM models and significant cost savings. Digital sales remained robust with double-digit growth, supported by enhancements in search and checkout processes. Tractor Supply also opened 16 new stores during the quarter, bringing the year-to-date total to 54.

Looking ahead, Tractor Supply raised the lower end of its fiscal 2024 guidance for sales and earnings, reflecting strong year-to-date performance and a positive outlook for Q4. The company anticipates continued customer resilience and effective capital deployment, positioning itself as a leader in the rural retail market. Management expressed confidence in their ability to deliver on financial targets and drive long-term value for shareholders through strategic initiatives and operational excellence.

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	***107***	***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

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.

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	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	***28.3***	***20.0***
Avg. Yld.	0.6%	0.7%	0.7%	0.9%	1.4%	1.5%	1.4%	1.1%	1.0%	2.2%	***1.5%***	***2.1%***

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.

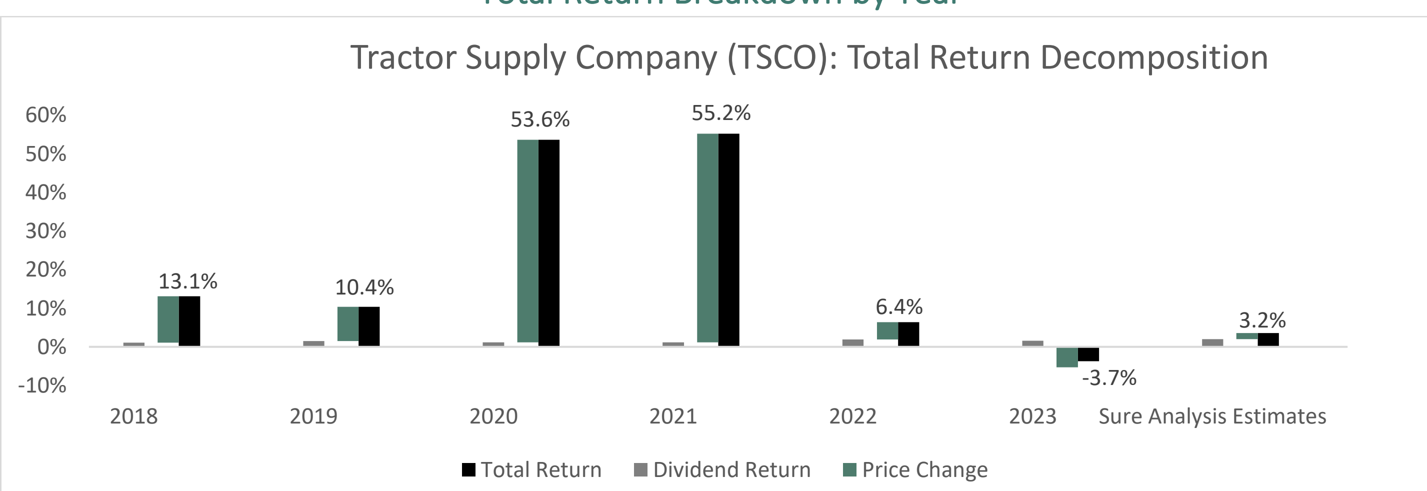
Many brick-and-mortar retailers feel the impact that Amazon (AMZN) and other online retailers are having on traffic at their stores, but Tractor Supply is relatively safe from the e-commerce threat. Many of the items the company sells are large and complex, and therefore not easily purchased online or 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 3.2% 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.