



Mossberg's Investor Digest Idea Profile

Tractor Supply Company (Nasdaq: TSCO)

DESCRIPTION:

Founded in 1938 and headquartered just outside Nashville, TN, Tractor Supply Company is the largest retail farm and ranch store chain in the United States. The company has 814 stores in 44 states, primarily located in rural areas and the suburbs of major cities. The company plans to nearly double the size of its store base to 1,400 stores.

Tractor Supply Company caters to hobby farmers and hobby ranchers, a segment that, according to the company, spends more than \$5.5 billion annually, enjoys household income 15% above the national average and a cost of living below the national average.

KEY INVESTMENT CONSIDERATIONS:

Product mix supports sales in a weak economy – While housing crises and high food and energy prices are impacting the broader economy, TSCO enjoys a product mix with a high percentage of non-discretionary items. TSCO's product mix includes pet products (33% of sales), seasonal products (26%), tools & hardware (15%), and clothing (10%). Its clothing is not fashion, but work related items such as boots and jeans.

Same store sales growth - TSCO's unique customer base and non-discretionary product assortment appear to be helping to keep same store sales comparisons in positive territory. Despite rising fuel and food costs and their affect on broader consumer trends, same store sales grew 0.5% during 1H08 and comparisons are expected to be flat to up 2% during the back of 2008. Sales should continue to grow as wealthy baby boomers and others embrace the farm and ranch lifestyle.

Solid growth potential with proven track record – TSCO has plenty of room to grow its store base and plans to add to its store count by 13% to 15% per year for the next several years. The company only has eight stores in California and none in states like Colorado, New Mexico, Utah and Nevada, all of which are big farm and ranch states.

Growth funded from strong cash flow generation – TSCO has generated sufficient cash flow to fund store growth and \$178 million in stock repurchases over the past 18 months without adding new debt.

Investments in the business should allow earnings to growth faster than sales. – During the last several years, TSCO has invested in its logistics, inventory and customer management systems, which has put pressure on the company's profitability. Going forward, the company should grow its bottom line faster than the revenue as it leverages these investments. For the first six months of 2008, inventory turns have improved by 11% to 3x per year, providing some evidence that these investments are paying off.

"Category Killer" with limited competition – TSCO is more than 5x larger (in terms of store count) than the second largest farm and ranch retail chain and nearly 3x larger than its next five competitors combined. With its size, TSCO gains significant advantages over competitors in terms of branding, marketing efficiencies, buying power, etc.

Strong Balance Sheet – With limited debt and strong cash flows, the company has more than adequate liquidity to weather an extended downturn in the economy should things make a turn for the worse.

VALUATION:

At \$37.56, TSCO is trading 30% below its 52 week high. Despite its growth expectations, continued year-over year financial improvement, and some resistance to economic weakness, the valuation multiples are near multi-year lows. The current multiple of 2008 EPS guidance of \$2.49 to \$2.55 per share is approximately 15x, which is significantly below the multiples in the range of 20 to 25 experienced just three to four years ago. Applying the low end of historical multiples to next year's EPS estimates of \$2.80, the stock would be valued in the mid 50's.

KEY RISKS:

While the company has identified more than 1,400 potential sites for its stores, after at least six years of double digit store growth, it may be difficult to find locations that can produce returns as attractive as its existing base. Also, the company has been acquisitive in the past and states that acquisitions are part of the growth strategy going forward. Integrating stores, employees, and cultures is difficult and could cause significant disruption.

(Nadaq: TSCO)

Investment Data (As of 7/24/08)

Recent Price	\$37.56
52-Week Range	26.70 - 53.55
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	37.4 MM
Average Trading Volume (3 mos)	765,000
Market Capitalization	1.4 B
Cash	63.0 MM
Long Term Debt	58.5 MM
Enterprise Value (EV)	1.4 B
LT Debt/ Equity	0.10
Tangible BV/ Share	\$15.54
TTM Revenue	2.7 B
P/ Revenue	0.5x
TTM EPS	2.30
P/ EPS	16.3x
TTM EBITDA	203.8 MM
EV/ TTM EBITDA	6.6x

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.