Feltl and Company

SECURITIES BROKERAGE AND INVESTMENT BANKING

Feltl and Company Research Department
225 South Sixth Street, Suite 4200
Minneapolis, MN 55402
1.866.655.3431

Brent R. Rystrom
brrystrom@feltl.com | 612.492.8810

Tractor Supply

Consumer- Retail *January 28, 2010*

Company Description: Tractor Supply *is the leading rural lifestyle retailing participant, a sector dominated by the company. TSCO operates nearly 900 stores in 42 states, and is growing its units by 7-8% annually while delivering double-digit earnings growth. TSCO is based in Nashville, Tennessee.*

Exceptional 4Q:09; encouraging guidance; raising rating to Strong Buy, target to $64

(TSCO - $52.22) STRONG BUY

Key Points

- Tractor Supply (TSCO) crushes 4Q:09 numbers, 2010 estimates have to work towards our Street high number, raising our rating and target price, expect stock to trade sharply higher today.
- 4Q:09 sales of $863mm and EPS of $1.04 were well above our respective $845mm and $0.92 estimates and sharply higher than consensus estimates of $845mm and $0.88.
- We are raising our rating to Strong Buy from Buy.
- We are raising our price target to $64 from $59 as the strong 2009 performance gives us higher confidence regarding our Street high 2010 estimates in what should be a stronger consumer environment.
- We are maintaining our Street high 2010 EPS estimate of $3.44, although we see several reasons to be optimistic for a higher number.

Tractor Store crushes 4Q:09 numbers. TSCO delivered 4Q:09 sales of $863mm, up 7.88% from year-earlier levels on the basis of a surprising 0.7% increase in same-store sales and 8.65% growth in the number of units operated. We had modeled comps at -2.0%. Key categories leading sales included the new Purina and Nutrena equine and livestock feeds, seasonal outerwear and footwear, discretionary seasonal hardlines, and heating related products like wood pellets.

GPMs expanded 247 bps to 33.12% on the sales leverage, better sell-through of seasonal merchandise with fewer markdowns, and benefits from freight expenses (fuel savings and freight cost-saving initiatives). SG&A as a percentage of sales increased slightly, rising to 24.21% of sales from 23.60%; D&A as a percentage of sales also rose minimally to 2.03% from 2.00%. The operating margin expanded as a result of these changes to 4.43% from 3.09%, an increase of 134 bps. The income tax rate of 35.0% was lower than the 38.0% we had modeled, adding nearly $0.05 of the upside to our estimate. Reported net income was $38.3mm, up 54.8% from the $24.7mm earned in 4Q:08. Earnings per share of $1.04 were up 55.2% from the $0.67 earned in the year-earlier period on a slightly lower share base.

We are raising our rating to Strong Buy from Buy, and raising our 12-month target price to $64 from $59. When we initiated on TSCO we noted that we would become more animated on the company if it demonstrated a strong seasonal performance in the 2H:09 and visibility improved for positive comps. TSCO's performance has clearly lifted, and easing consumer headwinds, possible tailwinds from categories like power equipment and mix shifts favoring private label merchandise, and possibly weather should continue to drive EPS and share price momentum. Our target price reflects a multiple of 19 times our 2010 EPS estimate, representing a slight premium to other hardlines growth retailers, a premium we believe justified by TSCO's currently still impressive unit growth, opportunities to accelerate growth, a large remaining opportunity to further develop stores, and exceptional EPS growth.

Revs	2008A	2009A	2010E
Apr	$576	$650	$685E
Jul	$898	$947	$1,018E
Oct	$734	$747	$811E
Jan	$800	$863	$942E
FY	$3,008	$3,206	$3,455E
P/Sales	0.63x	0.59x	0.54x

EPS	2008A	2009A	2010E
Apr	$(0.05)	$0.01	$0.02E
Jul	$1.15	$1.50	$1.54E
Oct	$0.43	$0.60	$0.74E
Jan	$0.67	$1.04	$1.15E
FY	$2.19	$3.15	$3.44E
P/E	23.8x	16.6x	15.2x

Price:	$52.22
52-Week Range:	$54.50-$28.67
Target:	$64
Rating:	STRONG BUY
Shares Outstanding:	36.0 mil
Mkt. Capitalization:	$1,880 mil
Ave. Volume:	390,000
Instit. Ownership:	102%
BV / Share:	$18.46
Debt / Tot. Cap.:	6%
Est. LT EPS Growth:	15%

Please see important disclosures on pages 4 to 6.

TSCO is generating tremendous cash in a tough environment. TSCO built cash balances by $135.7mm in 2009 and bought back over $15mm in stock. With minimal effort we estimate that cash and cash equivalents will build to 18% to 23% of total assets by the end of 2010, or roughly $6 to $8 a share. Return on equity in 2009 was near 18%, a number that will come down slightly towards 17% in 2010 as cash balances build (lower returns than store assets). Total shareholders' equity built to $733.9mm from $610.1mm at the start of the year, while inventories actually fell to $601.2mm from $603.4mm, pushing inventory turns to near 2.9 times for the year.

We are maintaining our Street high 2010 EPS estimate of $3.44, and expect other estimates to move towards our number. We are maintaining our Street high 2010 EPS of $3.44. As of yesterday the consensus was $3.28 and the low estimate was $3.07, and we would expect the consensus to move into the $3.40 range to reflect management's latest guidance. Several highlights from managements' guidance:

- Sales of $3.42 to $3.48 billion on a same-store sales increase of 0.5% to 2.5%.
- A reminder that the 1Q is typically seasonally a breakeven level of profitability, and no major holiday shifts to impact quarterly calendar.
- Limited annual inflation, starting with slight deflation in 1Q:10 and an average of +1% for the year.
- A flat to slightly higher EBIT margin resulting from GPM expansion and limited SG&A leverage; SG&A leverage should improve sequentially as same-store sales accelerate.
- LIFO provisions of $12.2mm.
- Income tax rate of 37.6%.
- Net income of $112.2 to $126.5 million.
- EPS of $3.30 to $3.42.

We see several opportunities for 2010 upside...and beyond. Tractor Supply could easily see upside to its sales and EPS expectations, as several of the following opportunities could come into play:

- First quarter weather. Management noted that winter hit heavy and hard right away in the 1Q:10, compared to the relatively mild and dry (snow or rain) start to last year's first quarter. As a result, seasonal apparel is selling at faster rates with smaller markdowns than in the year-earlier period.
- Seasonal sales of power equipment (PE). We believe that riding lawnmowers should be poised for flat sales results in the upcoming 2010 spring to summer season, a major shift after several years of double digit negative comps in this category. Management has noted that a plan is in place to replenish inventory quickly if PE sales do stabilize or improve beyond expectations. Comparable outdoor equipment sales trends in other categories like ATVs and snowmobiles may suggest this is a small but growing possibility. And a rebounding PE cycle should run for several years as the replacement cycle has lengthened considerably in recent years.
- Further penetration of private label merchandise and the resultant impact on merchandise margins. Private label merchandise reached 21% of sales in 2009, up from approximately 18% of sales in both 2007 and 2008. As private label continues to expand as a percent of sales, it replaces branded products in the sales mix that have merchandise margins typically 500 or more bps lower. Again, this is another trend that could favorable impacts margins for years.
- TSCO plans to open 70-80 units in 2010, representing growth of 7.5% to 8.6% on ending 2009 levels. As the economic recovery takes place, it could use its massively growing stockpile of cash to accelerate store growth. This could occur in 2010, but is more likely to benefit 2011 and beyond.
- TSCO's excess cash flow could be used to further repurchase stock. Cash and cash equivalents built by $135.7mm in 2009; in addition, another $15.3mm was used to repurchase stock. We are managing our cash flow model down and come up with minimal excess cash growth of $69mm in 2010 with a reasonable upside of $150mm or more. This could add substantially to EPS growth.

INVESTMENT RECOMMENDATION:

Tractor Supply has performed well through the difficult economic environment, driving strong EPS growth amidst negative comps. As an economic recovery takes place and consumer spending starts to accelerate, TSCO should be well positioned to benefit through accelerating same-store sales strength. In particular, strong sales in the spring of 2010 could drive significant model upside. Our target price of $64 assumes TSCO trades inline to the valuation of its peer group, and our rating is Strong Buy. TSCO is well-funded and could easily grow unit development faster.

Tractor Supply

Earnings Model Summary
$ in millions except per share

Feltl and Company
Brent Rystrom
Director of Research
612-492-8810
brrystrom@feltl.com

Income Statement:	1Q-07	2Q-07	3Q-07	4Q-07	1Q-08	2Q-08	3Q-08	4Q-08	1Q-09	2Q-09	3Q-09	4Q-09	1Q-10 (E)	2Q-10 (E)	3Q-10 (E)	4Q-10 (E)	2007	2008	2009	2010 (E)
Net sales	$ 559.8	$ 790.9	$ 629.2	$ 723.3	$ 576.2	$ 898.3	$ 733.9	$ 799.5	$ 650.2	$ 946.5	$ 747.7	$ 862.5	$ 684.5	$1,017.8	$ 811.1	$ 941.6	$2,703.2	$3,007.9	$3,206.9	$3,454.9
Cost of merchandise sold	391.7	540.5	430.6	487.8	400.7	624.8	515.7	554.5	449.1	644.3	501.7	576.8	473.1	695.4	540.8	629.1	1,850.5	2,095.7	2,172.0	2,338.5
Gross margin	168.2	250.4	198.6	235.5	175.5	273.5	218.2	245.0	201.0	302.2	246.0	285.7	211.3	322.3	270.2	312.5	852.7	912.3	1,035.0	1,116.4
Selling, general & administrative	147.2	167.0	156.1	171.4	163.2	187.3	176.8	188.7	183.7	197.8	193.8	208.8	193.5	213.2	209.0	226.7	641.6	716.0	784.1	842.4
Depreciation & amortization	12.0	12.4	12.9	13.8	14.4	15.0	15.3	16.0	16.2	16.1	16.4	17.5	16.2	16.4	16.6	16.8	51.1	60.7	66.3	66.0
Income (loss) from operations	9.0	71.1	29.7	50.3	(2.0)	71.2	26.1	40.4	1.2	88.3	35.8	59.4	1.6	92.8	44.7	69.1	160.0	135.6	184.6	208.0
Interest expense, net	0.9	0.6	1.5	2.0	1.2	0.6	(0.1)	0.4	0.4	0.3	0.5	0.5	0.5	0.5	0.5	0.5	5.0	2.1	1.6	2.0
Income (loss) before income taxes	8.1	70.5	28.2	48.3	(3.3)	70.6	26.1	40.0	0.8	88.0	35.3	58.9	1.1	92.3	44.2	68.6	155.0	133.4	183.0	206.0
Income tax expense (benefit)	3.1	26.7	10.7	18.3	(1.3)	27.2	10.3	15.3	0.3	33.3	13.4	20.6	0.4	35.5	17.0	26.4	58.8	51.5	67.5	79.3
Net income (loss)	$ 5.0	$ 43.8	$ 17.5	$ 30.0	$ (2.0)	$ 43.4	$ 15.9	$ 24.7	$ 0.5	$ 54.8	$ 22.0	$ 38.3	$ 0.6	$ 56.7	$ 27.2	$ 42.2	$ 96.2	$ 81.9	$ 115.5	126.71
EPS:																				
Basic	$ 0.12	$ 1.10	$ 0.45	$ 0.79	$ (0.05)	$ 1.17	$ 0.44	$ 0.68	$ 0.01	$ 1.53	$ 0.61	$ 1.06	$ 0.02	$ 1.57	$ 0.75	$ 1.17	$ 2.45	$ 2.22	$ 3.21	$ 3.51
Diluted	$ 0.12	$ 1.08	$ 0.44	$ 0.77	$ (0.05)	$ 1.15	$ 0.43	$ 0.67	$ 0.01	$ 1.50	$ 0.60	$ 1.04	$ 0.02	$ 1.54	$ 0.74	$ 1.15	$ 2.40	$ 2.19	$ 3.15	$ 3.44
Weighted average shares (millions):																				
Basic	40.2	39.6	39.0	38.1	37.5	37.2	36.4	36.2	36.0	35.9	36.0	36.1	36.1	36.1	36.1	36.1	39.2	36.8	36.0	36.1
Diluted	41.1	40.6	39.8	38.8	37.5	37.8	37.1	36.8	36.6	36.5	36.7	36.8	36.8	36.8	36.8	36.8	40.1	37.5	36.6	36.8
Gross profit margin	30.04%	31.66%	31.57%	32.56%	30.46%	30.45%	29.73%	30.65%	30.92%	31.93%	32.90%	33.12%	30.87%	31.67%	33.32%	33.19%	31.54%	30.33%	32.27%	32.31%
Operating margin	1.60%	8.99%	4.72%	6.95%	-0.35%	7.92%	3.55%	5.05%	0.18%	9.33%	4.79%	6.88%	0.23%	9.11%	5.51%	7.33%	5.92%	4.51%	5.76%	6.02%
Net margin	0.89%	5.53%	2.78%	4.15%	-0.35%	4.83%	2.16%	3.09%	0.07%	5.79%	2.94%	4.43%	0.09%	5.57%	3.35%	4.48%	3.56%	2.72%	3.60%	3.67%
Sales Model:																				
Stores at period end	698	717	738	764	791	814	834	855	882	895	912	930	950	970	991	1,005	764	855	930	1,005
Same-store sales	0.0%	1.0%	1.9%	3.7%	-6.7%	3.4%	6.2%	1.3%	4.2%	-2.7%	-5.1%	0.7%	-1.0%	0.0%	1.0%	1.5%	3.4%	1.4%	-1.1%	0.6%
Growth:																				
Sales					2.93%	13.58%	16.64%	10.54%	12.84%	5.36%	1.88%	7.88%	5.28%	7.53%	8.47%	9.17%		11.27%	6.62%	7.73%
Gross margin					4.36%	9.22%	9.84%	4.07%	14.54%	10.49%	12.76%	16.59%	5.12%	6.67%	9.82%	9.39%		6.98%	13.45%	7.87%
Operating margin					-122.77%	0.07%	-12.11%	-19.71%	-157.95%	24.08%	37.27%	47.01%	31.10%	5.05%	24.80%	16.33%		-15.29%	36.20%	12.67%
Net income					-140.17%	-0.93%	-9.15%	-17.67%	-123.41%	26.32%	38.49%	54.80%	37.86%	3.60%	23.61%	10.21%		-14.87%	40.94%	9.74%
EPS																				
Balance Sheet Summary:																				
Cash and cash equivalents	$ 20.4	$ 30.9	$ 14.7	$ 13.7	$ 17.4	$ 63.0	$ 16.6	$ 37.2	$ 37.4	$ 91.8	$ 94.9	$ 172.9	$ 13.7	$ 145.6	$ 227.3	$ 235.4	$ 13.7	$ 37.2	$ 172.9	$ 235.4
Inventories	722.9	692.4	699.3	636.0	746.1	683.3	716.8	603.4	730.1	644.9	704.0	601.2	667.4	712.4	567.7	659.1	636.0	603.4	601.2	659.1
Property & equipment, net	306.0	321.5	331.8	332.9	345.1	357.2	357.3	362.0	364.7	363.9	362.7	370.2	374.0	377.6	382.0	379.3	332.9	362.0	370.2	379.3
Total assets	$ 1,120.6	$1,123.3	$1,122.6	$1,058.0	$1,186.7	$1,176.3	$1,165.0	$1,076.0	$1,200.4	$1,171.5	$1,242.1	$1,230.8	$1,112.0	$1,305.9	$1,240.1	$1,342.3	$1,058.0	$1,076.0	$1,230.8	$1,112.0
Accounts payable	320.9	348.0	281.2	258.3	360.8	394.0	366.1	286.8	382.6	294.8	356.8	273.2	225.9	315.5	251.4	291.9	258.3	286.8	273.2	291.9
Accrued expenses	110.6	110.2	111.5	115.6	98.3	101.3	108.0	113.5	103.1	109.5	119.4	137.4	82.1	119.6	95.3	110.6	115.6	113.5	137.4	110.6
Total liabilities	535.3	529.0	537.8	492.6	621.9	584.6	564.2	465.9	594.8	507.1	548.6	497.6	378.1	515.3	422.3	482.4	492.6	465.9	497.6	482.4
Stockholders' equity	585.3	594.3	584.8	565.3	564.8	591.7	600.8	610.1	605.7	664.4	693.5	733.2	733.9	790.6	817.8	859.9	565.3	610.1	733.2	859.9

Analyst Certification

I, Brent R. Rystrom, certify that the views expressed in this research report accurately reflect my personal views about the subject company and its securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation related to the specific recommendations expressed in this report.

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Strong Buy: The stock is expected to have total return potential of at least 30%. Catalysts exist to generate higher valuations, and positions should be initiated at current levels.
Buy: The stock is expected to have total return potential of at least 15%. Near term catalysts may not exist and the common stock needs further time to develop. Investors requiring time to build positions may consider current levels attractive.
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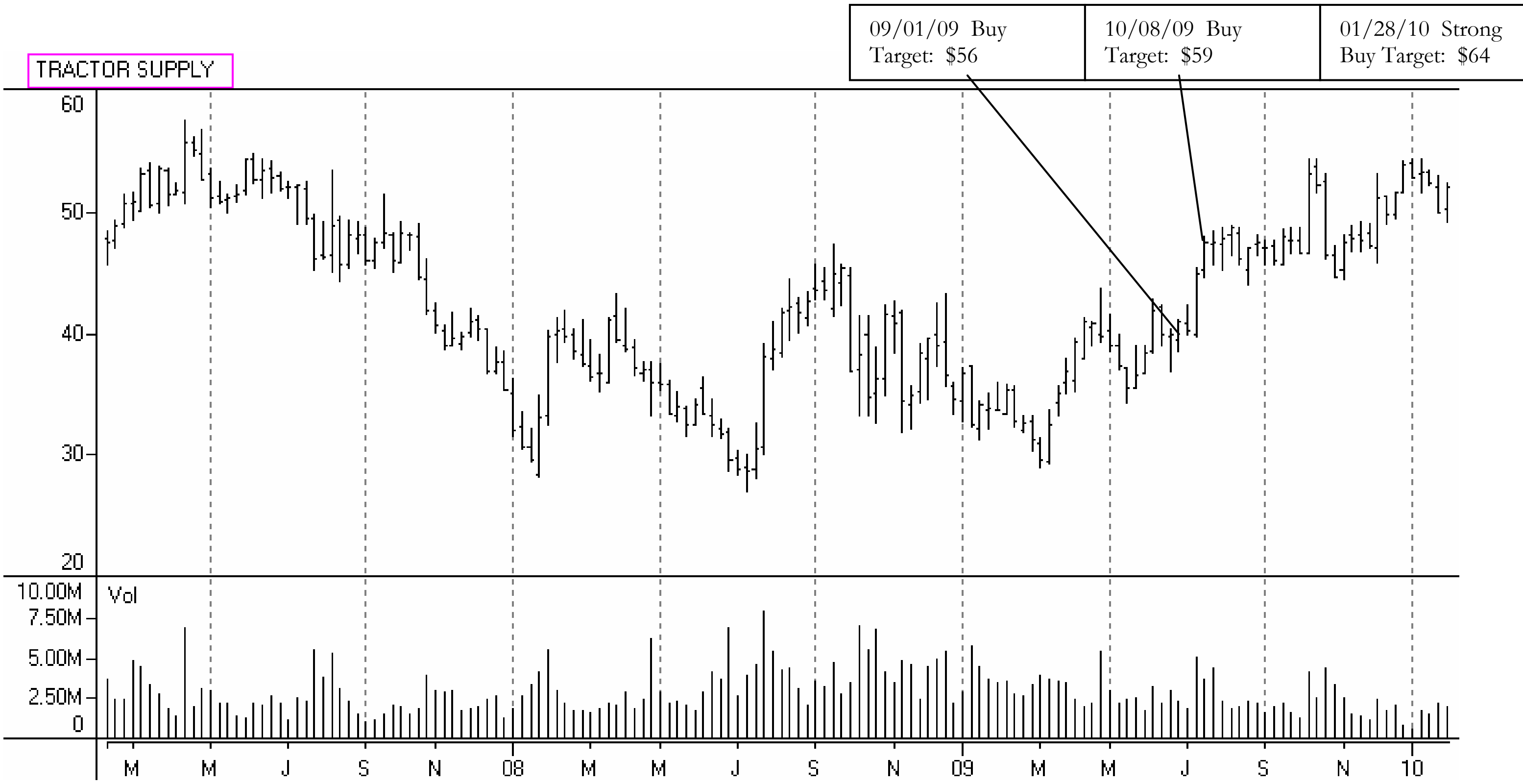
Sell: Expect a negative total return. Current positions may be used as a source of funds.

1/28/2010

Ratings Distribution for Feltl and Company

Rating	Number of Stocks	Percent of Total	Investment Banking: Number of Stocks	Investment Banking: Percent of Rating category
SB/Buy	31	69%	2	6%
Hold	12	27%	0	0%
Sell	2	4%	0	0%
	45	100%	2	4%

The above represents our ratings distribution on the stocks in the Feltl and Company research universe, together with the number in (and percentage of) each category for which Feltl and Company provided investment-banking services in the previous twelve months.



Date	Nature of Report	Rating	Price Target
09/01/09	Initiation@$47.53	Buy	$56
10/08/09	Comps Below Expectations, Raising Target	Buy	$59
10/19/09	Q3:09 Preview	Buy	$59
10/22/09	3Q Profits Driven by Exceptional GPM	Buy	$59
12/03/09	Store Visits Suggest Positive Sales and GPM Trends	Buy	$59
01/06/10	Brr:Coats and boats are selling well	Buy	$59
01/28/10	Exceptional 4Q:09; raising rating and target	StrongBuy	$64

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Valuation and Price Target Methodology:

Our price target on TSCO is based on a multiple of FY2010 EPS that is a 7% discount to the average multiple accorded Lifestyle Retailing participants. We believe the discounted multiple reflects TSCO's recently weak same-store sales performance. Eventually, we believe a premium multiple is likely because of TSCO's strong growth, high operating margins, profit growth, and exceptional return on assets and equity. Such valuation would also place TSCO's EV/EBITDA multiple in the mid-point of the range for the same peer group.

Risks to Achievement of Estimates and Price Target:

- Tractor Supply's (TSCO) merchandise assortment includes a large proportion of discretionary items that have and could continue to negatively impact sales results. So far through this recession TSCO has minimized this issue by successfully focusing on margin and expense management, minimizing the impact of the difficult sales environment for discretionary items.

- TSCO competes with several retailers that are massively larger in terms of total sales, including Home Depot, Lowe's, Menard's and PetSmart. Competitive moves by any or all of these retailers could negatively affect TSCO's operational results.
- Sales of certain TSCO products are heavily influenced by weather. Riding lawnmower sales, for example, have been weak for several years in the southeast and southwest regions of the country as a result of drought conditions in those areas.
- TSCO is dependent on finding appropriate real estate for its growth strategy, which involves adding a net 75-80 stores annually to its store base. Although TSCO is well-funded internally, the difficult economic environment is slowing real estate development and could limit TSCO's growth opportunities.

Other Disclosures:

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RESEARCH DEPARTMENT

Brent R. Rystrom
Director of Equity Research
(612) 492-8810

Ernest W. Andberg, CFA
(612) 492-8836

Jay M. Meier
(612) 492-8847

Mark E. Smith
(612) 492-8806

Joshua J. Elving
(612) 492-8872

Scott R. Berg
(612) 492-8857

Shawn P. Bitzan
(612) 492-8816

TRADING: (866) 777-9862

William W. Koop
Director of Equity Trading
(612) 492-8830

Thomas J. Walters
Equity Trading
(612) 492-8829

Elliott M. Randolph
Institutional Sales Trading
(612) 492-8867

Cory N. Carlson
Institutional Sales Trading
(612) 492-8858

Luke J. Weimerskirch
Institutional Sales Trading
(612) 492-8832

INSTITUTIONAL SALES: (866) 338-3522

Thomas J. Pierce
(612) 492-8817

Mark A. Hagen
(612) 492-8846

Ryan M. Quade
(612) 492-8807

Brandt B. Wendland
(612) 492-8855

John E. Stratton
(612) 492-8826

Jeff R. Sonnek
(612) 492-8825

Matt J. Rasmussen
(612) 492-8860