



Costco Wholesale Corp (NASDAQ: COST)

Consumer Goods



Recommendation: Buy | **Target Price:** \$1,025.03 | **Implied Upside:** 12%

Ben Brownlie – Portfolio Manager

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Costco Wholesale Corp (NASDAQ: COST)

Company Overview	<ul style="list-style-type: none"> Costco, the world's third-largest retailer by revenue, is recognized for its 92.3% North American membership renewal rate and has strategically expanded its membership offerings through the Kirkland Signature brand, ancillary services and e-commerce offerings The market is undervaluing Costco digital expansion and international growth, with our model estimating an intrinsic value of \$1,025.03 per share, implying a 12% upside
Industry Overview	<ul style="list-style-type: none"> Value-oriented spending trends benefit warehouse and discount retailers, with 75% of US households switching to private-label brands to reduce spending, supporting the growth of Kirkland Signature brand Easing inflation, steady wage growth, and moderating US dollar create a supportive macro-opportunity for Costco's value driven model and international earning stability
Investment Thesis	<ul style="list-style-type: none"> The investment theses for Costco is split into three parts: <ul style="list-style-type: none"> Digital transformation: Costco's e-commerce has experienced significant growth, as online membership delivered 20% growth in digitally-enabled sales in FY2025 International growth: APAC leads growth, with 5+ openings per year through FY2027 SKU efficiency: Disciplined model creates a deliberate tradeoff competitors struggle to replicate
Valuation	<ul style="list-style-type: none"> Costco's intrinsic value was estimated using a weighted average of the Discounted Cash Flow (DCF) Analysis output and an EV/EBITDA exit multiple valuation Our model projects an intrinsic value \$1,025.03 per share, indicating a 12% upside from the current price
Risks & Catalysts	<ul style="list-style-type: none"> Despite Costco's dominant position in the wholesale market, the company still faces some potential risks: <ul style="list-style-type: none"> Supply Chain: Costco's limited SKU count increases reliance on high-volume suppliers, making disruptions in APAC shipping lanes a key risk to maintaining stable in-stock rates Private Label Competition: growth in private label offerings erodes Kirkland Signature's pricing power Regulatory & Labour Pressure: SNAP benefits suspension causes decrease in grocery spending
Recommendation	<ul style="list-style-type: none"> An 85% weight was assigned to the Exit Multiple method and 15% to the Perpetuity Growth method The valuation analysis supports a 'Buy' recommendation with a target price of \$1,025.03, implying a 12% upside from the current price of \$912.58

Costco Wholesale Corp (NASDAQ: COST)

Company Overview

Industry Overview

Investment Thesis

Valuation

Risks & Catalysts

Recommendation

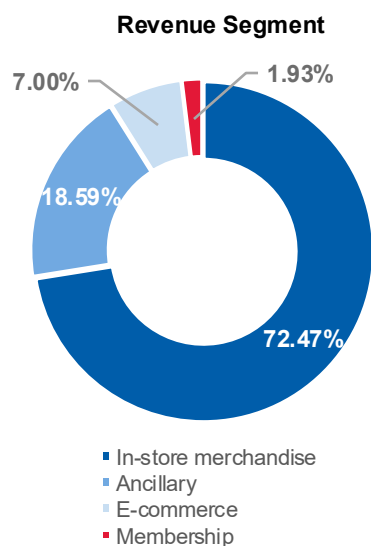
Costco Wholesale Corp (NASDAQ: COST)

Costco maintains a strong competitive moat through its high-volume, low-margin model and loyal membership base, while expanding into e-commerce, ancillary services, and global markets to drive diversified, long-term growth.

Business Description

- Founded in 1983 by Jim Sinegal and Jeffrey Brotman in Seattle, Costco merged with Price Club in 1993 to accelerate national growth
- Now the world's third-largest retailer by revenue and market capitalization, operating 914 warehouses across 15 countries with e-commerce in 8 of those markets
- The company is renowned for its streamlined operations, buying most products directly from suppliers and quickly shipping them to its warehouses. The large warehouse capacity, complemented by low SKUs, has helped Costco maintain low costs, while sharing savings with its customers.
- Costco prioritizes company culture, providing competitive wages and benefits to maintain high employee retention and quality customer service. It emphasizes internal promotions – the current CEO began as a forklift driver at Price Club.
- The company is focused on strategic global expansion, selectively adding new warehouses in key markets. Its growing membership base continues to provide Costco with a sustainable, long-term competitive advantage.

Revenue Sources (FY2025)



Description

Merchandise: 1st-party retail, where Costco buys inventory in bulk from suppliers and sells directly to customers through its warehouses

Warehouse Ancillary: Includes gasoline, pharmacy, optical, food court, hearing aids, and auto program

E-Commerce: Online orders are fulfilled directly from Costco's warehouses or through supplier drop-shipping

Memberships: Customers pay an annual fee to shop in-store or online, with 3 available tiers: Gold Star, Business, and Executive

Management Team



Hamilton
James

Ron
Vachris

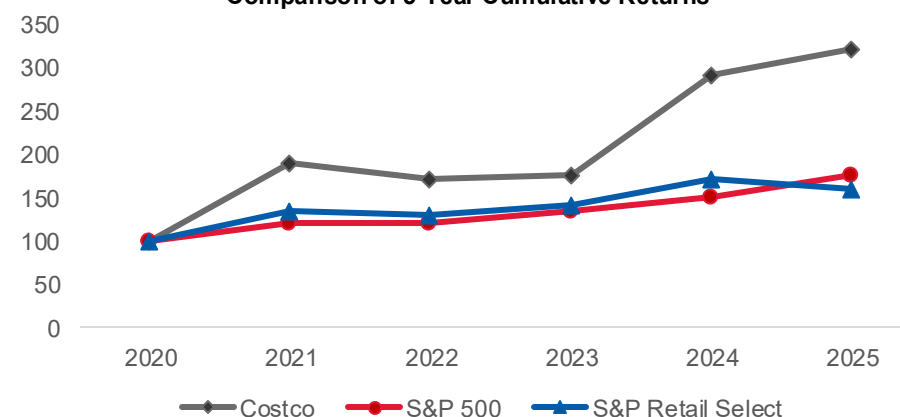
Gary
Millerchip

Russ
Miller

Position	Executive Chair	CEO	CFO	COO
Tenure (Years)	37+	1+	1+	3+

Historical Performance

Comparison of 5-Year Cumulative Returns



Cumulative return on a \$100 investment in Costco, S&P 500, and S&P Retail Select Index, assuming reinvestment of dividends

Membership Model

Membership fees enable Costco to maintain its low-pricing model, creating a virtuous cycle of member loyalty and high renewal rates while contributing the majority of operating income.

Membership Tiers & Pricing



Gold Star Membership - \$65/year

Baseline individual membership:

- Access to Costco warehouses and online stores



Executive Membership - \$130/year

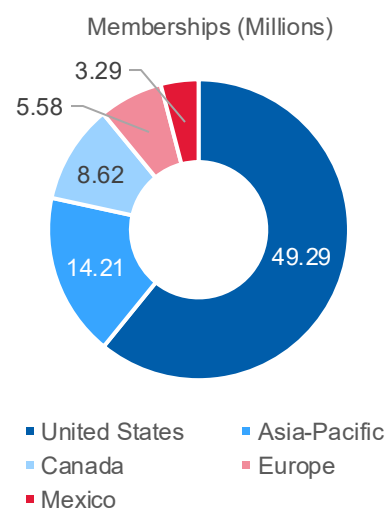
Premium offerings:

- 2% cashback on purchases (capped at \$1,250 annually)
- Early warehouse access at 9 a.m.
- Exclusive discounts on Costco services (travel, insurance, etc.)
- \$10 monthly credit for online purchases

Executive Membership: The Value Driver

- Sales Contribution:** 47.7% of members drive **73.6% of global sales**
- Average Member Income:** \$100,000 household income
- Shopping Frequency:** ~30 visits per year, spending ~\$100 per trip

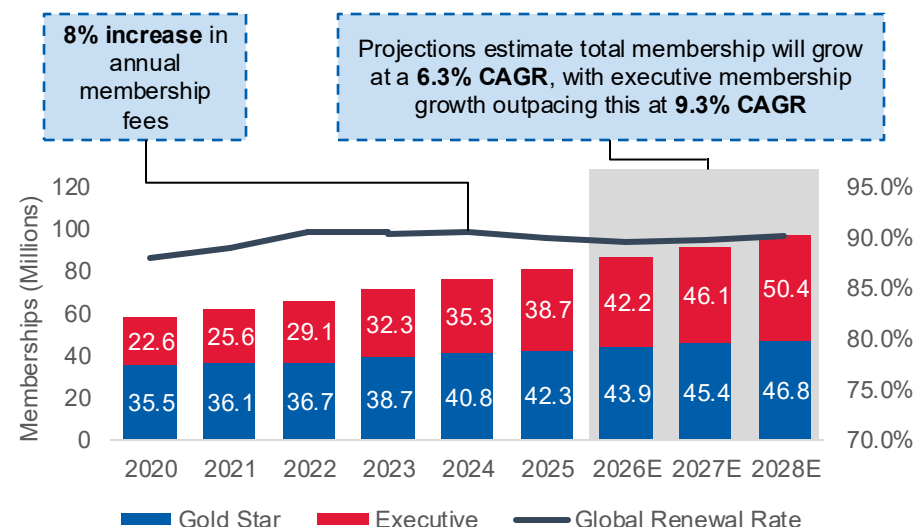
International Market Penetration



	NA	INT
Warehouses	781	131
Members per Warehouse	78,000	151,000
Renewal Rate	92.3%	89.8%
Market Status	Mature	Growing

Over 75% Costco's operations and membership base are concentrated in North America, indicating significant untapped international growth potential

Membership Growth & Renewal

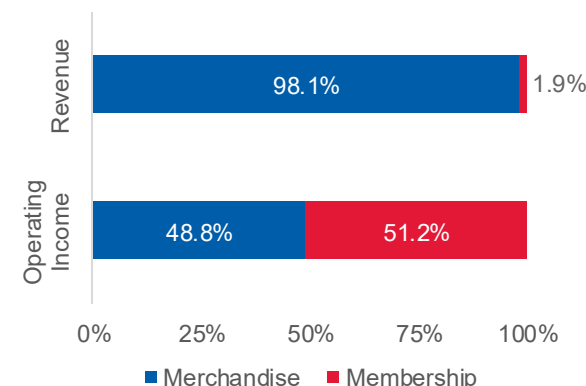


The September 2024 fee increase added **\$355M in annual revenue** with zero incremental costs and a negligible impact on membership growth

Membership Operating Income

Costco's membership segment achieves virtually **100% operating margins** versus 1.9% for merchandise.

Every dollar of membership revenue is **53 times more profitable** than a dollar of merchandise revenue.



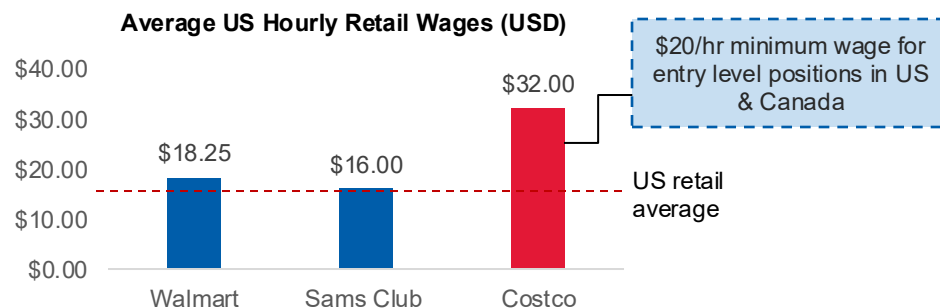
Kirkland Signature Brand & Culture

Costco's culture of integrity and discipline, rooted in its Code of Ethics, drives its commitment to ethical operations and member-first value. The Kirkland Signature brand reinforces this culture by strengthening cost control across warehouse favorites and deepening member loyalty.

Costco Code of Ethics

1. Obey the law
2. Take care of our members
 - Every choice aims to deliver quality products at the lowest possible price, resulting in a 92.3% membership renewal rate (US & Canada)
 - Membership endowment effect contributes to below-industry shrinkage rates
3. Take care of our employees
 - 8% employee turnover vs. ~60% US industry average, demonstrating exceptional workforce stability
 - Low turnover enables greater investment in employee development, sustaining a culture where ~99% of roles are filled through internal promotion
4. Respect our suppliers

Sinegal emphasizes that disciplined adherence to Costco's ethical hierarchy will ultimately reward shareholders



Top Selling Kirkland Items in US (2023)



Toilet Paper: \$1.4 bn sales revenue



Paper Towels: \$1.2 bn sales revenue



Bottled Water: \$720 mn sales revenue

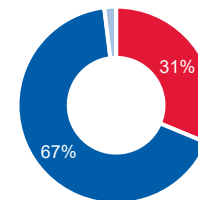
Kirkland Brand Overview

Kirkland Signature: Costco's private label brand offers a wide range of products, from groceries to apparel, at prices consistently below national brands

- Strategic co-branding with top quality brands to offer savings on member favourites, including Kirkland coffee custom roasted by Starbucks
- Kirkland Signature products yield higher margins than 14% cap on national brands
- Kirkland Signature offers over 550 products, ~15% of total SKU count

FY2025 Sales Revenue (Mn)

- Kirkland Signature
- Branded Merchandise
- Membership



Kirkland Signature generated \$86 bn in sales revenue FY2025, a 53.6% increase from \$56 bn in FY2024

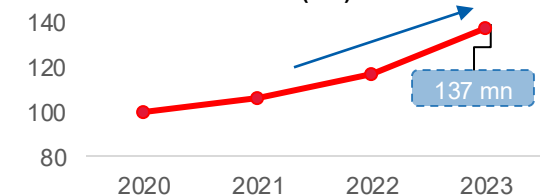
Kirkland Rotisserie Chickens – Case Study

Kirkland rotisserie chickens have remained \$4.99 USD since 2009

- To address inflationary pressures & US chicken supplier constraints, Costco invested \$450 mn to open a poultry processing facility in Nebraska in 2019
- Processes ~2 mn chickens weekly with 40% used for rotisserie chickens
- Operations require birds from 100+ regional chicken farms



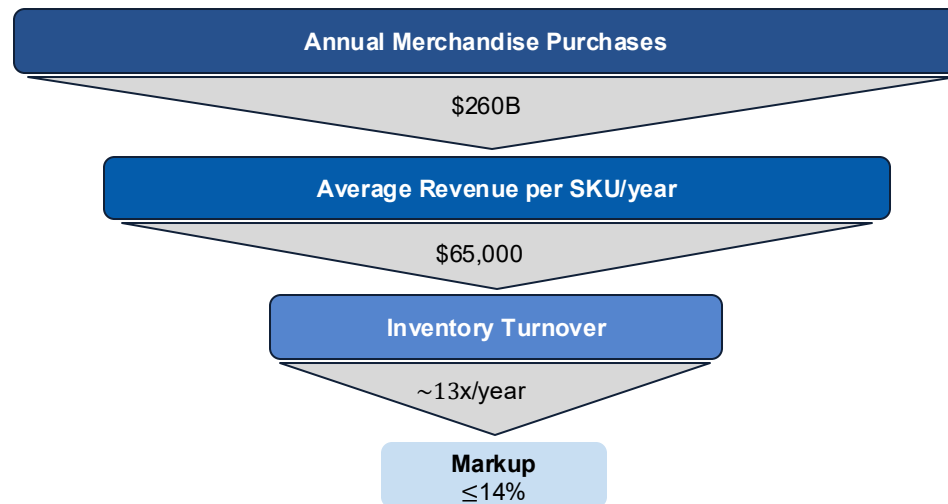
Global Kirkland Rotisserie Chicken Sales (mn)



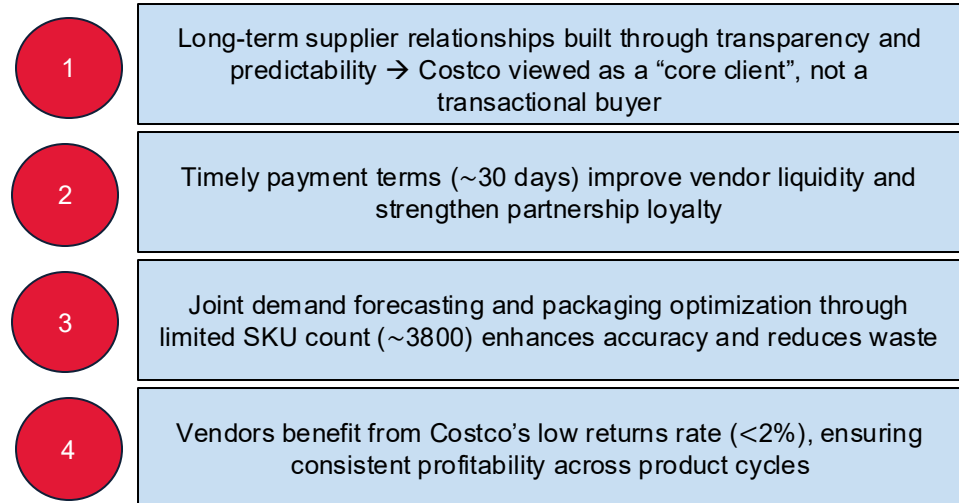
Purchasing Power & Vendor Relations

Through scale efficiency, disciplined purchasing, and long-term supplier partnerships, Costco sustains a structural cost moat and trusted ecosystem that competitors cannot replicate.

Scale-Driven Purchasing Power

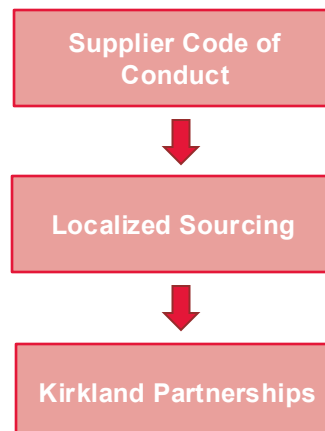


Vendor Partnership Ecosystem

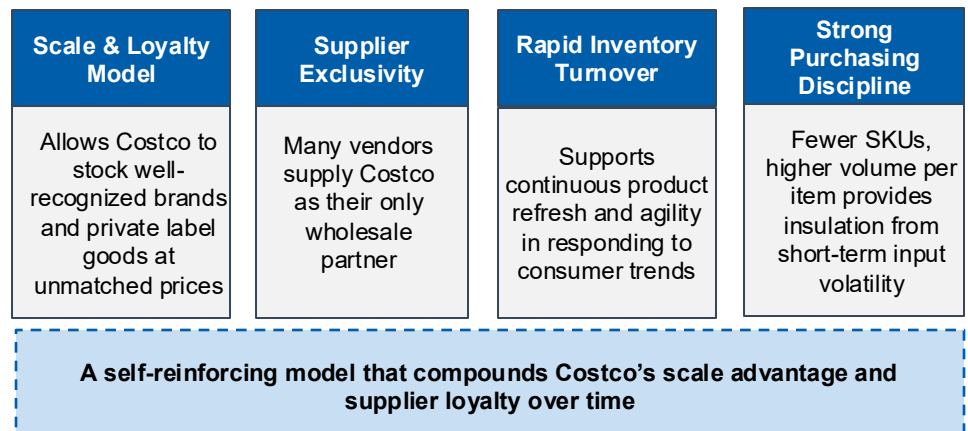


Ethical & Sustainable Sourcing

- Governed by **Costco’s Supplier Code of Conduct** emphasizing “**Respect Our Suppliers**” and ethical procurement
- Active monitoring of labour, environmental, and quality standards in global sourcing markets
- Localized procurement across **APAC and EU** reduces **FX and tariff volatility**, while cutting freight emissions
- Kirkland Signature** partnerships align incentives for consistent quality and shared sustainability commitments



Competitive Differentiation

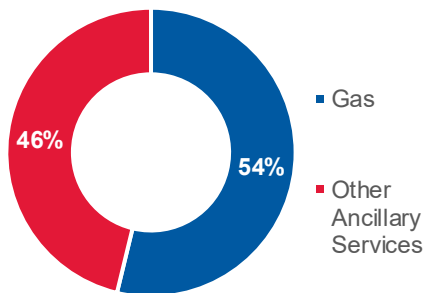


Ancillary Services & Partnerships

Costco continues to strengthen membership value by expanding benefits and integrating ancillary services that drive traffic and merchandise sales, while enhancing the customer experience across both warehouses and digital platforms.

Revenue & Composition

Ancillary Revenue Breakdown



Gas

Gas provides a major membership benefit, driving **10%** of total net sales

Other Ancillary Services

Pharmacy: prescription drugs, vaccinations
Optical Centers: eyewear sales, eye exams
Food Court: \$1.50 hot dogs, pizza, sundaes
Other Services: hearing aid centers, photo print services, Costco Travel, insurance & financial partnerships, and auto programs

Partnerships & Outsourced Services



Costco is the #1 most visited store here. Members in the U.S. & Canada receive a \$10 monthly credit via Instacart



Travelport provides Costco members with low prices and exclusive perks such as room upgrades and free breakfast.



Costco members can earn cash-back rewards wherever Visa® is accepted" worldwide



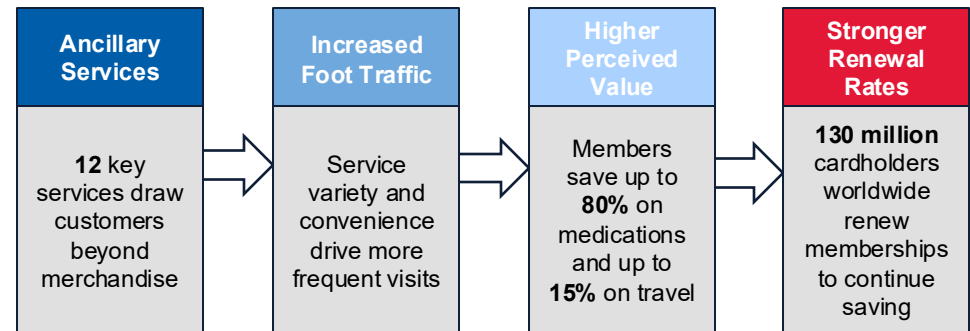
Costco's travel division offers its members discounted rental-car rates by partnering with ABG (in 165 countries)



Exclusive insurance offerings (life, health, travel) for members, supporting global travel and protection needs

Strategic partnerships expand Costco's ecosystem, while maintaining Costco's low-cost model. By enhancing convenience, Costco drives member engagement, in-store traffic, and recurring revenue.

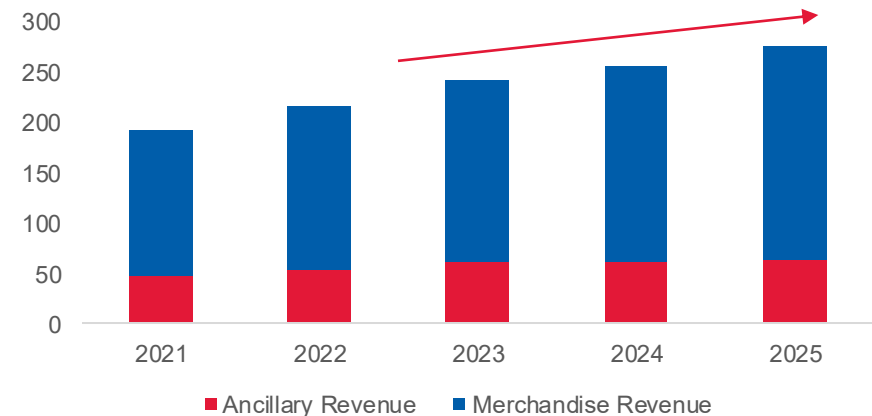
Member Value & Loyalty



Ancillary offerings deepen value perception and sustain >90% renewal rates

Strategic Impact

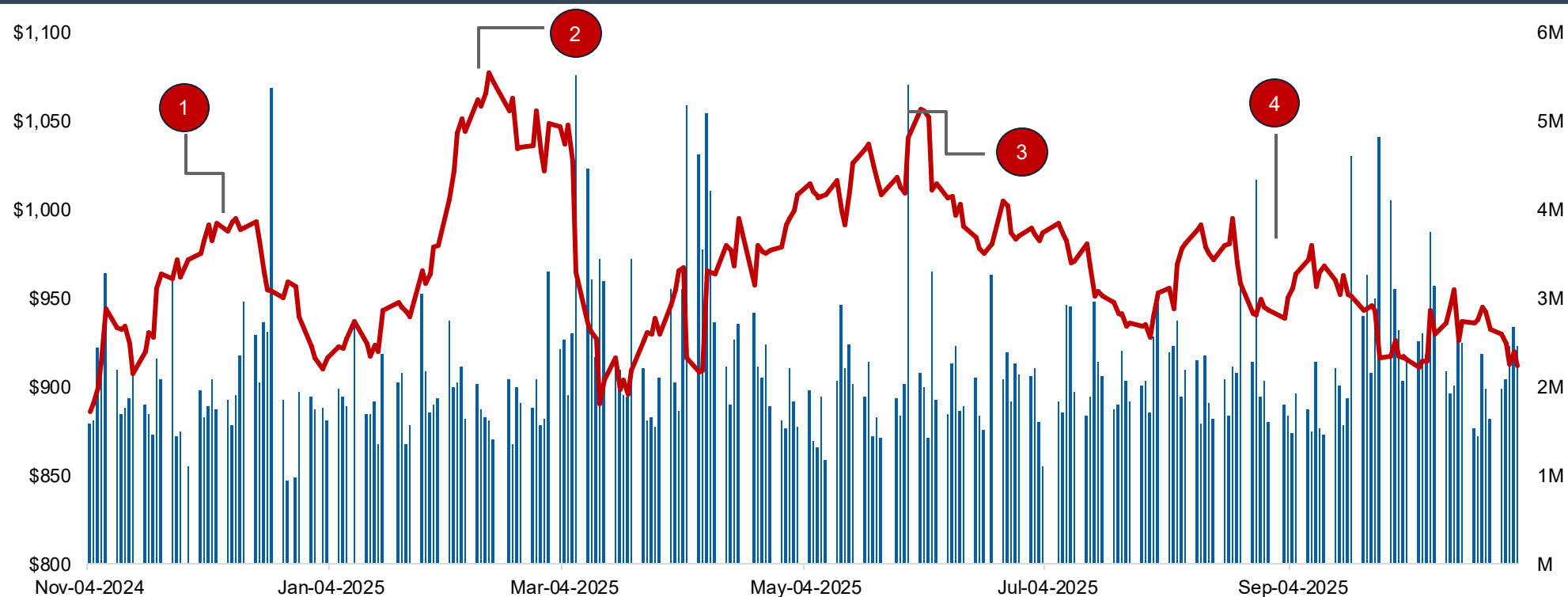
Ancillary vs Merchandise Revenue



Despite representing a smaller revenue share, ancillary services drive traffic and convert warehouse visits into higher-margin merchandise purchases, as reflected in the growth above.

Price Volume Analysis

Price-Volume Chart & Commentary



1

December 2024

Q1 FY25 Earnings Beat – Reported net sales of \$57.85B

2

February 2025

Pre-Earnings Rally Q2 FY25 – Driven by strong January sales momentum

3

May 2025

Costco beat expectations and announced 3 new warehouses in Asia

4

September 2025

Costco announced plans to open 35 new warehouses in FY26

Enterprise (EV) Build

As of 2025-11-03

(US\$ millions)

Market Capitalization	403,935.7
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(-) Cash & Cash Equivalents	(15,284.0)
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(+) Total Debt	9,935.0
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= Total Enterprise Value (TEV)	398,586.7
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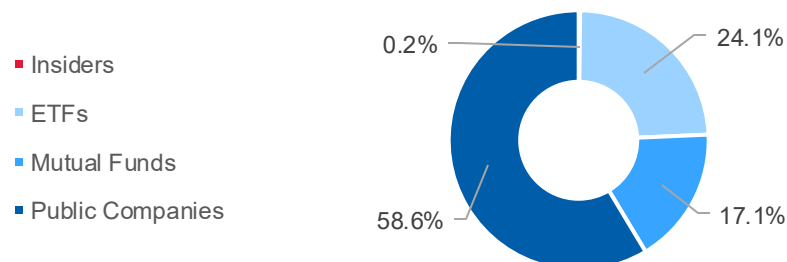
Shareholder/Ownership Structure

Costco's ownership structure is dominated by institutional investors, with roughly 70% of shares held by large asset. Costco maintains a strategic focus on creating shareholder value through modest dividends, significant stock buybacks, and disciplined reinvestment in growth initiatives.

Top Institutional Shareholders

Major Shareholders	% Hold	# of Shares	Value
Vanguard Group Inc	9.78%	43.36M	\$40.41B
Blackrock Inc.	8.03%	35.58M	\$33.17B
State Street Corporation	4.13%	18.33M	\$17.08B
Geode Capital Management, LLC	2.32%	10.28M	\$9.58B
Morgan Stanley	2.16%	9.57M	\$8.92B
FMR, LLC	2.12%	9.41M	\$8.78B
Bank of America Corporation	1.58%	6.98M	\$6.51B
NORGES BANK	1.30%	5.75M	\$5.36B
Northern Trust Corporation	1.14%	5.05M	\$4.71B
Invesco Ltd.	0.97%	4.29M	\$4.00B

Ownership Breakdown

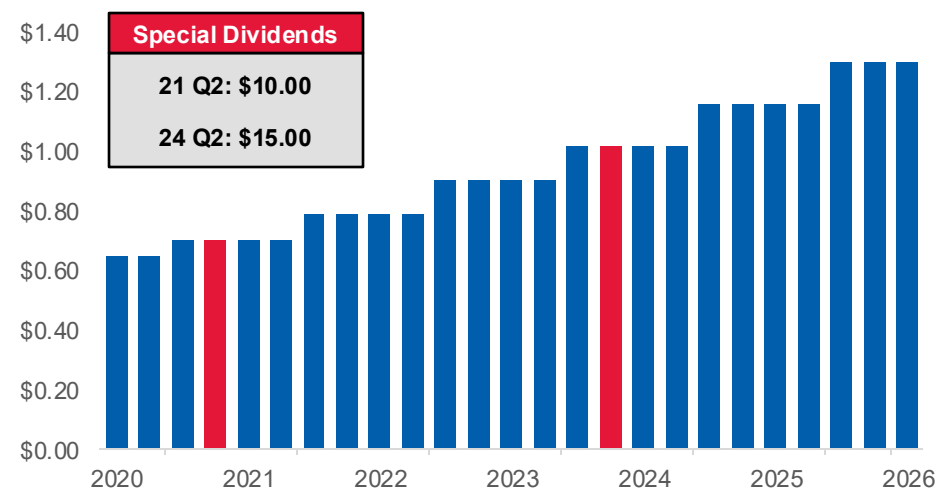


Jim Senegal's Continued Involvement

- Despite retiring from the board in 2018, founder and former CEO Jim Senegal still holds 631,854 shares (\$591M). He now remains a key advisor for current Costco governance.
- Senegal's ongoing advisory role and "stakeholder-first" philosophy (members → employees → suppliers → then shareholders) are embedded in Costco's DNA

Senegal's continued influence serves as governance insurance preventing short-term margin expansion that could compromise the competitive moat

Dividends



Costco actively repurchases shares under a \$4 billion authorization, with **\$1.962 billion remaining** as of FY2025 end

Special dividends are issued following periods of exceptional cash generation

Costco maintains a modest dividend yielding approximately 0.56%, with the primary focus on capital reinvestment and shareholder value through buybacks rather than high dividend yields

Costco Wholesale Corp (NASDAQ: COST)

Company Overview

Industry Overview

Investment Thesis

Valuation

Risks & Catalysts

Recommendation

Macroeconomic Overview

Easing inflation, stable wage growth, and a strong but moderating U.S. dollar create a balanced macroeconomic backdrop that supports Costco's resilient consumer demand and international performance.

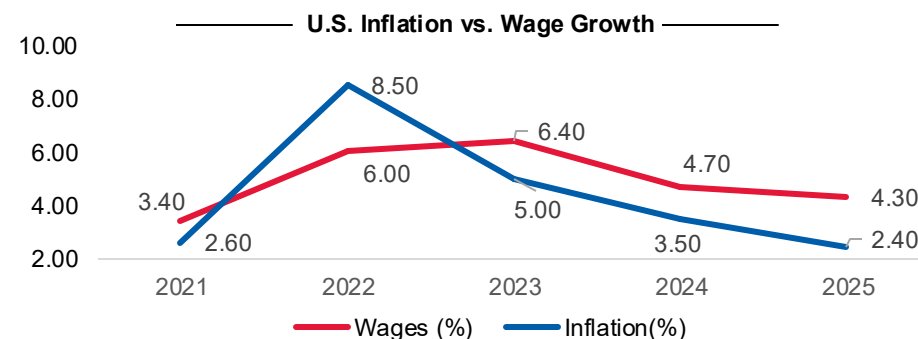
Evolving Consumer Landscape

- **Value Orientation:** Inflation fatigue has pushed consumers towards bulk purchasing and lower price per-unit models – Costco's "value-first" proposition has gained advantage as households lean toward essentials
- **Stable Employment & Wage Growth:** Persistent labour market strength supports consumer purchasing power, sustaining renewal rates and traffic in periods of slowing GDP growth
- **Normalizing Inflation:** Headline inflation in North America continues to trend towards 2-3%, alleviating input pressures while preserving consumer demand for staples
- **Interest Rate Stabilization:** Central banks in the U.S. and Canada have paused rate hikes, improving credit conditions and reducing financing costs for expansion and inventory

Headwinds & Tailwinds

Headwind	Implication	Tailwinds
Sticky Input Costs	Wage and freight inflation continue to pressure margins, particularly internationally	<ul style="list-style-type: none"> ▪ Consumers trading down amid elevated prices favours Costco's bulk and low-margin structure ▪ \$7B+ in annual membership fees provide predictable cash flow and offset macro volatility ▪ Growth in APAC markets diversifies earnings and reduces dependence on North America ▪ Net Debt < 0.4x EBITDA allows reinvestment and resilience during tightening cycles
Tariff & FX Volatility	Trade tensions and USD strength raise import costs, partially offset by localized sourcing	
Consumer Fatigue	Slowing discretionary spend may moderate comp growth after multi-year strength	
Premium Valuation	Elevated multiple increases sensitivity to earnings disappointments in volatile markets	

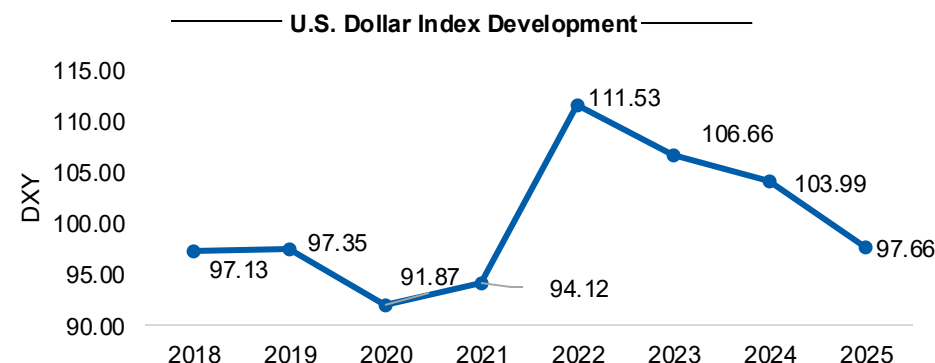
Key Economic Indicators



Easing inflation and rising real wages stabilize purchasing power – supports Costco's traffic and renewal rates as consumers regain confidence

Strong USD creates FX headwinds on international earnings, through Costco's diversified revenue base benefits as currency pressures ease

- U.S./ Canada inflation at ~3% / 2.2% respectively, supports volume stability, eases cost pressures
- BoC policy rate at ~2.25% and Fed Rate at ~4.00%, rate plateau improves consumer credit conditions
- Unemployment at 4.3% in the U.S. and 6.9% in Canada sustains wage-driven spending base



Key Competitors – Emerging Trends

Shifting consumer sentiment is driving the growth of private label brands, while e-commerce memberships, artificial intelligence (AI) and augmented reality redefine the online shopping experience.

Investment in Private Label Brands (PLB)

- 75% of US consumers are switching to PLBs to reduce household spending
- Retailers are optimizing supply chains to expand margins, achieving an average 9% profit increase over national brands
- PLBs are driving brand loyalty & differentiation, with over 80% of consumers rating their quality as equal to or better than national brands







E-commerce Trends

- Leverage AI to offer consumers personalized product suggestions & promotions, increasing conversion & checkout basket size
- Augmented reality allows customers to visualize products in their own environment, reducing return rates & increasing satisfaction
- 95% US consumers prioritize free shipping, supporting the growth of e-commerce memberships that promote delivery benefits, including Walmart+

Costco's Positioning – US Market



Key Competitor Elements

Key Elements						
Annual Sales Revenue of Private Label Brand (PLB)	Kirkland Signature ~31%	Member's Mark ~30%	~25% across 3 PLB	~20% across 300+ PLB	~30% across 50 PLB	~10.2% across 6 PLB
E-commerce Growth	15.6% YoY, partner with Uber Eats & Instacart	26% YoY, under 3 hr delivery, AI	34% YoY, same day delivery	25% YoY, same day delivery, augmented reality, AI	4.3% YoY, same day delivery, augmented reality, AI	16% YoY, partner with Uber Eats & Instacart
Average Household Income	\$100k USD	\$40k - \$100k USD	\$75k USD	\$73k USD	\$80k USD	\$80k USD

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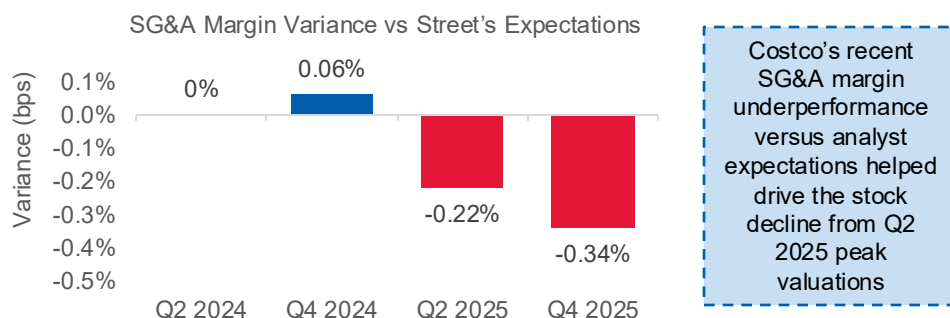
Risks & Catalysts

Recommendation

Thesis (1/3): Digital Transformation

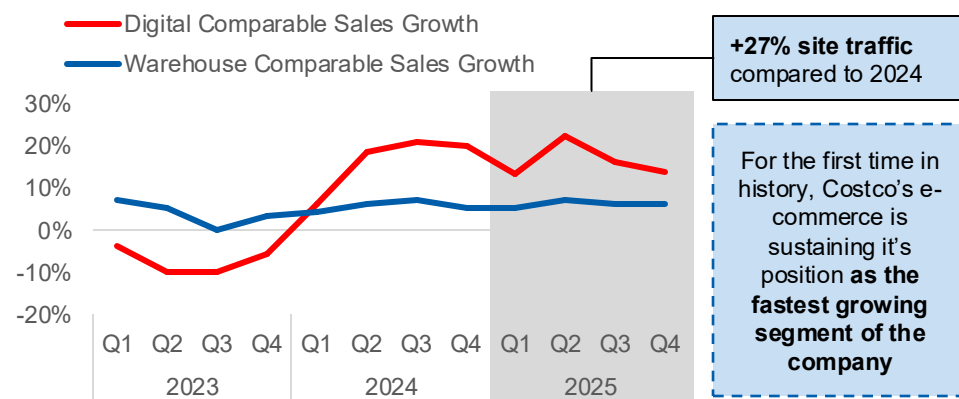
Temporary performance headwinds from Costco's digital infrastructure investments are misinterpreted by the market as business model deterioration, creating a valuation opportunity as margin leverage reverses and membership renewal rates rebound with a higher-LTV base.

Market Mispricing of Digital Transformation



- Costco highlighted that this margin pressure reflects **strategic investments in digital infrastructure**, including information system improvements, adding password-less sign-on, and creating a waiting room for high velocity items.

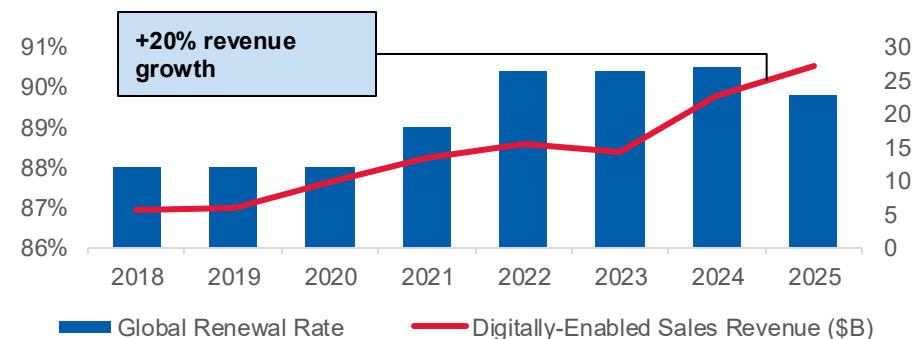
“We believe the company's newer chapter of digitally supported growth helps to justify a higher valuation” – TD Cowen



The market punished Costco for investing in its future. These investments are already showing ROI but depress near-term margins. Once infrastructure is built, margins will bounce back dramatically.

Transitory Mix Shift Driving Member Base Enhancement

- Renewal rates declined for the first time in 8 years (down 60bps to 92.3%) in Q3 2025. The market interpreted this as **weakening member loyalty and business model deterioration**.



- Management explained that the decline is a mix shift issue resulting from growing presence of e-commerce:

“Renewal rates were negatively impacted by a higher number of memberships sold online, including through digital promotions, entering the renewal rate calculation. **These members renew at a slightly lower rate on average.**” – COST Management Team, Q4 2025

- A closer look at Costco's members suggests that concerns over the renewal rate decline was overblown; the strategic transition to e-commerce is well positioned to drive greater long-term growth.

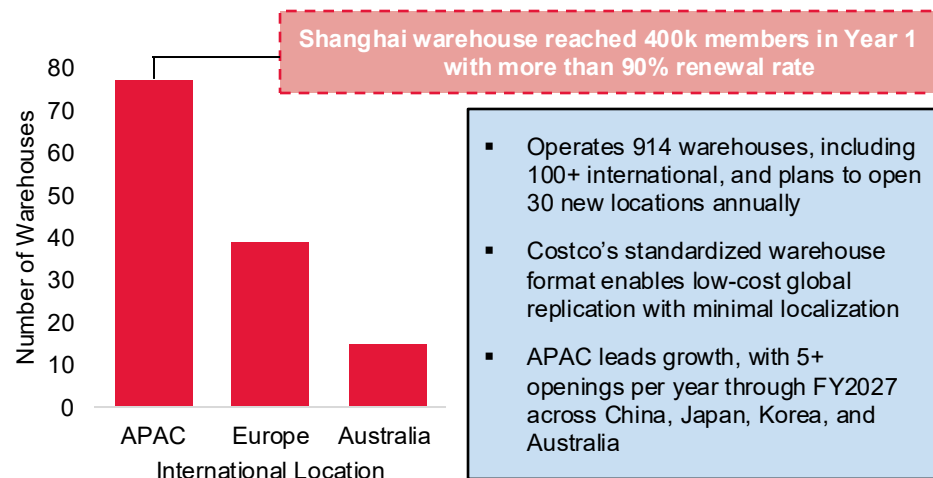
Drawn by Costco's expanded e-commerce offerings, **nearly half of new members are now under age 40**—a younger, digital-first demographic with higher lifetime value. Once these digital members mature, renewal rates will rebound while Costco gains a younger member base that will **compound value for decades**.

Online members delivered **20% growth in digitally-enabled sales** in FY2025, demonstrating robust engagement that directly contradicts concerns about member quality; the digital membership base is **spending heavily and actively transacting**.

Thesis (2/3): International Growth

Costco's international operations in the APAC represent the company's next growth lever. With a scalable membership model, cost-efficient expansion, and a strong brand, Costco is positioned to unlock significant upside as international revenue-per-member converges to North American levels.

APAC: Proven Scalability and Market Penetration

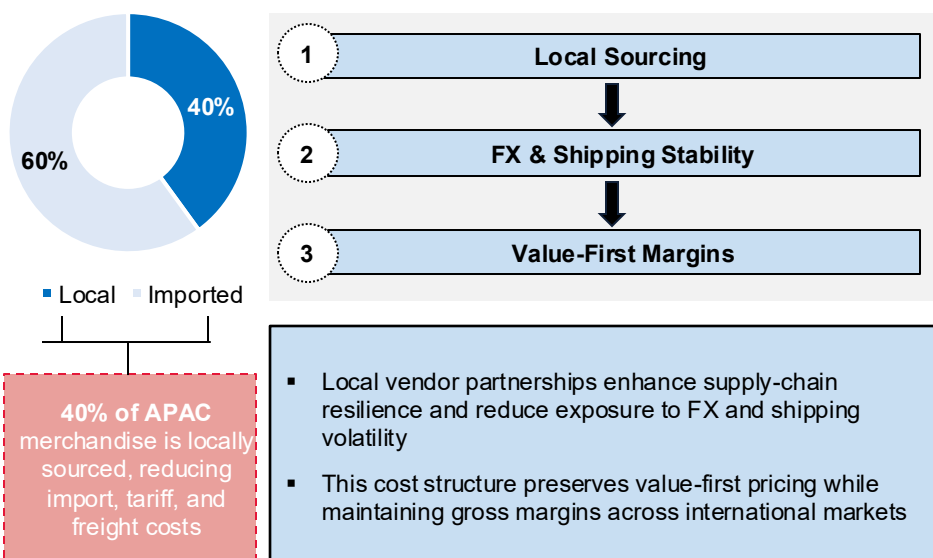


Self-Funded Growth & Strong Cash Generation

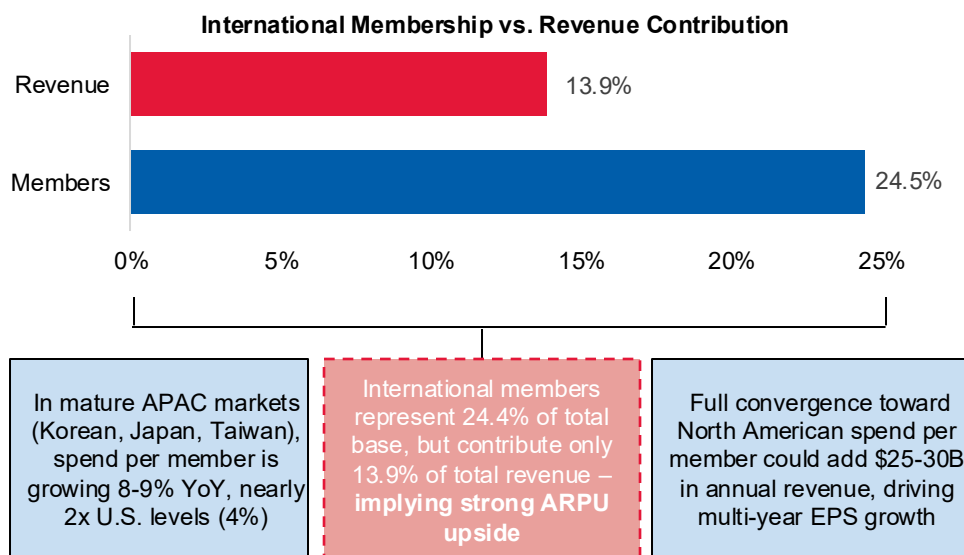
Metric	COSTCO WHOLESALE	Walmart	TARGET
Cash Conversion Cycle	-5 days	+ 2 days	+ 4 days
ROIC	20%+	~ 10%	~ 12%
Net Debt/EBITDA	0.4x	2.1x	1.7x

Costco's negative cash conversion cycle provides self financing through supplier payables and upfront membership fees – funds warehouse expansion

Localized Supply Chain Advantage



Diversified International Footprint



Thesis (3/3): SKU Count Efficiency

Costco strategically maintains a selective SKU count which drives cost efficiency, supplier leverage, and lower prices, all in alignment with its core principle to “take care of our members”. This disciplined model creates a deliberate tradeoff that competitors struggle to replicate.

Selective SKU Count Strategy

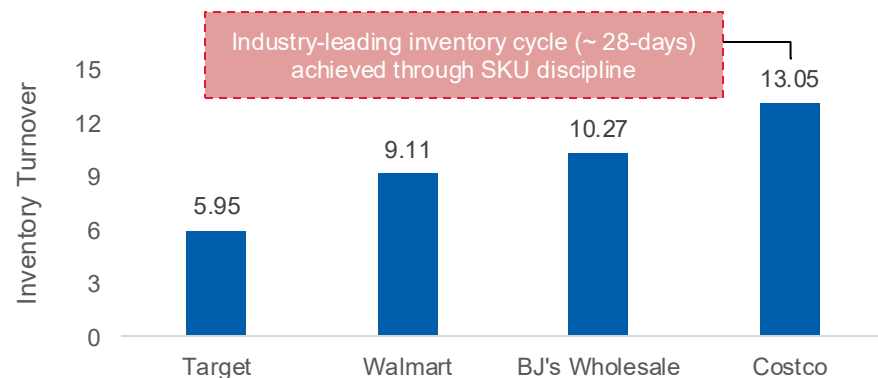
- Costco deliberately sacrifices product breadth to maximize member savings, a model competitors struggle to replicate due to consumer demand for product variety

SKU count disciplined allows for:

- Strategic procurement:** narrow SKU set enables Costco's buyers to be more knowledgeable about unit economics, production costs & supplier dynamics
- Volume concentration:** High volume purchasing per SKU strengthens Costco's bargaining power and fosters individualized vendor relationships
- Average revenue per SKU:** ~10x that of Walmart's amplifies Costco's influence as a top buyer for select suppliers

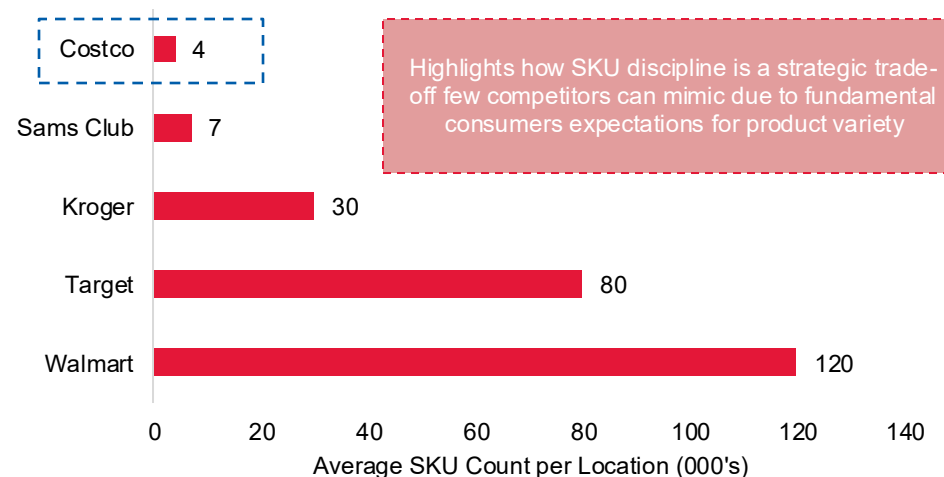
By combining scale with its procurement team's expertise, SKU discipline strengthens Costco's negotiating power to secure the lowest possible prices for members

Inventory Turnover (per year)



High turnover on large volumes reduces per-unit operating costs, reinforcing Costco's low-margin model which drives member loyalty

SKU Count per Location (000's)



Cost Monitoring & Tariffs Positioning

- Consolidating to fewer suppliers in response to tariffs has generated 30–40% cost savings on select high-volume goods
- Costco's limited SKU model enhances cost control and agility, enabling faster product mix adjustments and greater use of private label to lower prices
 - Launched 30+ Kirkland Signature items in Q4 in response to tariff impacted goods eg. grass-fed beef sticks
- Close vendor relationships & product-specific cost knowledge enable Costco to proactively mitigate tariff exposure
 - Strategically moving production to lower-cost regions, increasing domestic sourcing & leveraging global buying

SKU count discipline reduces complexity, improves cost monitoring and enhances agility during economic uncertainty to support margin resilience

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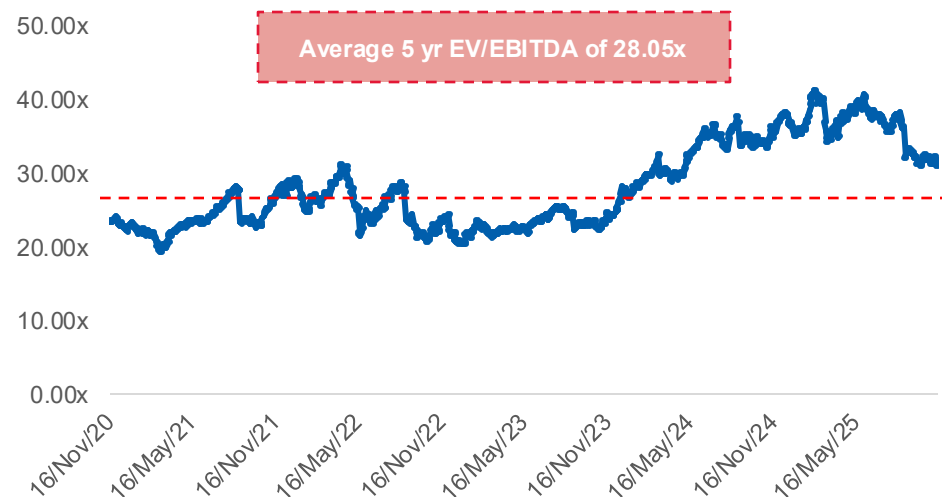
Recommendation

Comparable Company Analysis (1/2)

While peers include warehouse and value retailers, Costco's high retention-membership model, historically durable margins and economic resilience distinguish Costco's business model and justify its sustained valuation premium.

US\$mm Company	Market Data					LTM Valuation			NTM Valuation		
	Share Price	Shares Outstanding	Equity Value	Net Debt	Enterprise Value	EV/Revenue	EV/EBITDA	P/E	EV/Revenue	EV/EBITDA	P/E
Costco Wholesale Corporation	\$922.74	443.2	408,939	-5,349	403,590	1.47x	31.51x	50.67x	1.36x	28.36x	50.67x
Target Corporation	\$91.24	454.4	41,459	16,061	57,520	0.54x	6.64x	10.63x	0.54x	7.12x	10.63x
Casey's General Stores, Inc.	\$533.57	37.2	19,839	2,433	22,272	1.36x	17.65x	34.25x	1.26x	15.93x	34.25x
The Kroger Co.	\$64.91	662.7	43,014	20,295	63,304	0.43x	7.89x	16.56x	0.42x	7.52x	16.56x
Walmart Inc.	\$102.59	7972.9	817,935	57,128	881,810	1.27x	20.57x	38.71x	1.23x	18.98x	38.71x
BJ's Wholesale Club Holdings, Inc.	\$91.41	131.8	12043.6	2,590	14,633	0.70x	13.20x	20.97x	0.66x	12.07x	20.97x
Amazon.com, Inc.	\$244.41	10690.2	2,612,796	66,241	2,679,037	3.88x	19.18x	34.52x	3.48x	13.78x	34.52x
Median						0.99x	15.42x	27.61x	0.95x	12.93x	27.61x
75th Percentile						1.99x	19.52x	35.57x	1.81x	16.69x	35.57x

Costco EV/EBITDA Historical (5 yr)



Exit Multiple Rationale

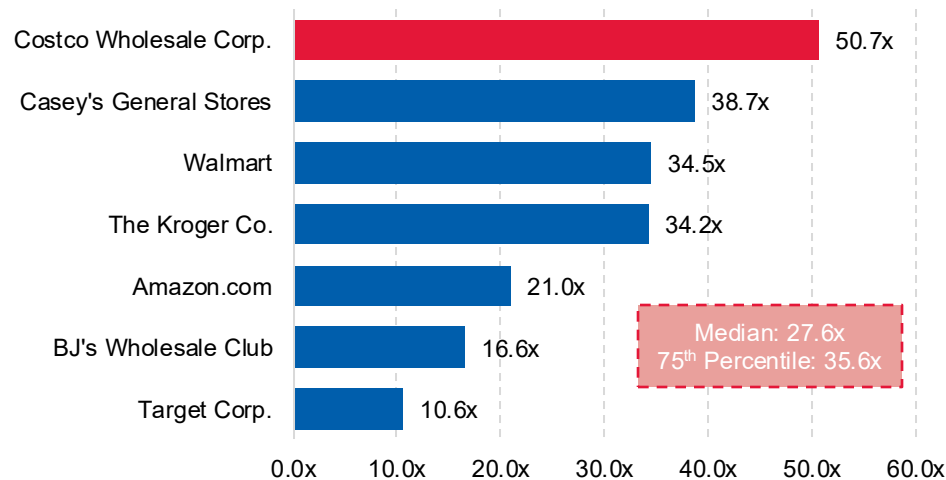
- A peer-based multiple would undervalue Costco's unique business model, as no retailer replicates its combination of thin margins, limited SKU count and high-margin membership income
- Costco has consistently traded at a premium to retail peers due to recurring membership revenue, earnings visibility, and operational efficiency
- Using the 5-year average EV/EBITDA of 28.05x better reflects the market's long-term valuation of Costco's durable growth and business cycle resilience

Using the 5-year average EV/EBITDA is more reflective of investor sentiment and market expectations for Costco's steady, predictable growth. It provides a reliable benchmark for a mature, stable company with consistent performance metrics (eg. ~12% gross margins), aligning with how investors have historically valued Costco.

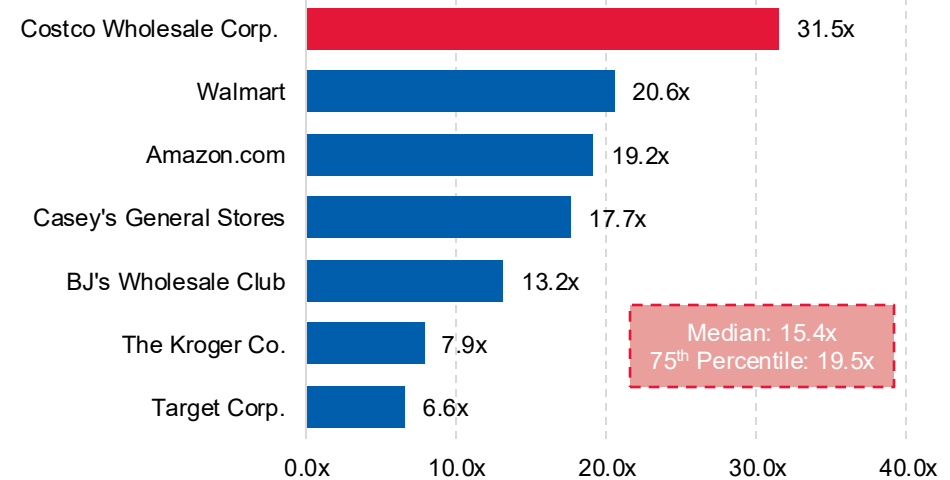
Comparable Company Analysis (2/2)

Costco's valuation multiples sit well above the 75th percentile of retail peers, reflecting investor confidence in its consistent revenue growth, margin expansion, strong balance sheet, and loyal membership-driven earnings base, all factors which support durable long-term performance.

P/E Visualization of Peer Universe



EV/EBITDA Visualization of Peer Universe



Costco Multiple Commentary

- **Predictable earnings base:** Premium valuation supported by the stability and visibility of earnings, driven by strong membership retention and recurring fee income
- **Resilient membership model:** with a 92.3% renewal rate in North America and membership fees accounting for 51.2% of operating income, Costco's membership model provides a durable stream of cash flows
- **Consistent and scalable growth:** Costco continues to deliver consistent revenue growth through its scalable warehouse model, with same-store sales up 5.7% in NA and international market FY2025
- **Margin expansion momentum:** net margins have increased in 7/8 past quarters, supported by Kirkland Signature growth, operational efficiencies, and a disciplined value-pricing strategy
- **Financial strength:** Costco maintains an industry-leading balance sheet, with operating cash flows up 18% YoY in FY2025 and a net cash position that provides flexibility for expansion, special dividends and resilience through economic uncertainty
- **Economic resilience:** Costco's member base skews toward higher-income households (~\$100k USD), above key retail peers, supporting spending resilience and sales consistency through business cycles

Costco's premium valuation is justified by its **consistent revenue growth, resilient membership-driven earnings base, margin expansion, and industry-leading financial strength**, all which sustain predictable and durable long-term performance

Discounted Cash Flow Analysis (1/2)

The perpetuity method implies a discount to Costco's current share price, while the exit multiple method indicates a 19% premium, better reflecting investor sentiment and long-term market confidence in Costco's growth durability.

Discounted Cash Flow Output Table

(US\$m)	Historicals			Forecast Period				
	2023A	2024A	2025A	2026F	2027F	2028F	2029F	2030F
Period				0.25	1.25	2.25	3.25	4.25
Revenue								
Membership Fee	4,580	4,828	5,323	5,833	6,392	6,968	7,566	8,216
Net Sales	237,710	249,625	269,912	303,427	341,133	376,238	407,449	441,267
Total Revenue	242,290	254,453	275,235	309,260	347,525	383,206	415,015	449,483
Membership Fees Growth Rate (%)	8%	5%	10%	10%	10%	9%	9%	9%
Net Sales Growth Rate (%)	5%	5%	8%	12%	12%	10%	8%	8%
Total Revenue Growth Rate (%)	7%	5%	8%	12%	12%	10%	8%	8%
(-) COGS	(212,586)	(222,358)	(239,886)	(270,448)	(303,911)	(335,114)	(362,931)	(393,073)
Gross Profit	29,704	32,095	35,349	38,812	43,614	48,092	52,084	56,410
Margin (%)	12%	13%	13%	13%	13%	13%	13%	13%
(-) Selling General & Admin Exp.	(21,590)	(22,810)	(24,966)	(26,596)	(29,887)	(32,956)	(36,106)	(39,105)
(-) R & D Exp.	-	-	-	-	-	-	-	-
(-/+) Other Operating Income	-	-	-	-	-	-	-	-
EBITDA	10,191	11,522	12,809	14,908	16,753	18,473	19,591	21,218
Margin (%)	4%	5%	5%	5%	5%	5%	5%	5%
(-) Depreciation & Amortization	2,077	2,237	2,426	2,693	3,026	3,336	3,613	3,913
% revenue	1%	1%	1%	1%	1%	1%	1%	1%
EBIT (Operating Income)	8,114	9,285	10,383	12,216	13,727	15,136	15,978	17,305
Margin (%)	3%	4%	4%	4%	4%	4%	4%	4%
(-) Taxes	(2,195)	(2,373)	(2,719)	(3,066)	(3,445)	(3,799)	(4,010)	(4,344)
Tax Rate (%)	27%	26%	26%	25%	25%	25%	25%	25%
NOPAT	5,919	6,912	7,664	9,149	10,282	11,337	11,967	12,961
Margin (%)	2%	3%	3%	3%	3%	3%	3%	3%
(+) Depreciation & Amortization	2,077	2,237	2,426	2,693	3,026	3,336	3,613	3,913
Growth Rate (%)	9%	8%	8%	11%	12%	10%	8%	8%
Margin (%)	1%	1%	1%	1%	1%	1%	1%	1%
(+ / -) Change in NWC	1598	(3514)	2490	2019	2275	2047	1885	1875
Growth Rate (%)	152%	(320%)	(171%)	(19%)	13%	(10%)	(8%)	(1%)
Margin (%)	1%	(1%)	1%	1%	1%	1%	0%	0%
(-) Capital Expenditures	4323	4710	5498	5677	5977	5940	6018	6518
Growth Rate (%)	11%	9%	17%	3%	5%	(1%)	1%	8%
Margin (%)	2%	2%	2%	2%	2%	2%	1%	1%
Unlevered Free Cash Flow (UFCF)	5,271	925	7,082	8,184	9,604	10,781	11,447	12,232
Growth Rate (%)		(82%)	666%	16%	17%	12%	6%	7%
WACC (%)				7.76%	7.76%	7.76%	7.76%	7.76%
Present Value UFCF				8,032	8,748	9,112	8,978	8,902
Sum of Present Value UFCF			43,773					

Key Assumptions

As of 2025-11-16	
Current Share Price	\$912.58
Net Debt	-5349
Perpetual Growth rate	4%
Implied Exit Multiple (EV/EBITDA)	28.05x
WACC	7.76%
Tax Rate	25%

Perpetual Growth - Methodology			
TV- Perpetuity Method		Enterprise Value to Equity Value	
Terminal Year UFCF	12,232	Implied Enterprise Value	289,872
Perpetuity Growth Rate	4%	(-) Net Debt	(5,349)
Terminal Value	338,136		
(+) PV of Terminal Value	246,100	Implied Equity Value	295,221
(+) Sum of PV of UFCFs	43,773	Diluted Shares Outstanding	443
Implied Enterprise Value	289,872		
Implied Exit Multiple	15.9x	Implied Share Price	\$666.11
% of Implied EV from TV	85%	Premium/Discount to Current	-28%

Exit Multiple - Methodology			
Terminal Value - Exit Multiple		Enterprise Value to Equity Value	
Terminal Year EBITDA	21,218	Implied Enterprise Value	476,993
Exit EV/EBITDA	28.1x	(-) Net Debt	(5,349)
Terminal Value	595,191		
(+) PV of Terminal Value	433,219	Implied Equity Value	482,342
(+) Sum of PV of UFCFs	43,775	Diluted Shares Outstanding	443
Implied Enterprise Value	476,993		
Implied Growth Rate	6%	Implied Share Price	\$1,088.32
% of Implied EV from TV	91%	Premium/Discount to Current	19%

Discounted Cash Flow Analysis (2/2)

Explaining the rationale behind key assumptions that went into the model.

Discounted Cash Flow Analysis Commentary

- **Revenue and Cost Assumptions**
 - Sales and membership growth based on management's guidance on North American and international warehouse expansion through FY2027
 - Growth trajectory remains consistent with historical periods of greater warehouse openings
- **Depreciation & Amortization**
 - Expected to increase with Costco's capex based on global warehouse openings
- **Weighted Average Cost of Capital (WACC)**
 - Low cost of debt (1.6%) and beta (0.98) captures Costco's strong credit and predictable cash flows
- **Methodology Rationale**
 - We decided to assign an 85% weighting to the exit multiple method and 15% to perpetuity growth method
 - More accurate reflection of investor sentiment regarding Costco's consistent long-term performance

WACC Build

Numerical data taken from Capital IQ

The cost of equity is calculate using the Capital Asset Pricing Model (CAPM)

Costco's low beta, relative to consumer goods companies, reflects its business models stability and resilience to economic downturns.

WACC	
Fully Diluted Share Count	443mn
Fully Diluted Market Cap	409.06bn
Total Debt	9.94bn
Cost of Debt	1.6%
Risk Free Rate	4.1%
Cost of Equity	7.92%
Expected Return on the Market	8%
Effective Tax Rate	25%
Beta	0.98
WACC	7.76%

Sensitivity Analysis

		WACC						
		6.26%	6.76%	7.26%	7.76%	8.26%	8.76%	9.26%
Perpetuity Growth Rate	5.50%	1050.88	1049.78	1048.70	1047.64	1046.59	1045.57	1044.57
	5.00%	877.67	876.56	875.48	874.42	873.38	872.36	871.35
	4.50%	757.55	756.45	755.36	754.30	753.26	752.24	751.24
	4.00%	669.36	668.26	667.17	666.11	665.07	664.05	663.05
	3.50%	601.86	600.76	599.68	598.62	597.57	596.55	595.55
	3.00%	548.54	547.44	546.35	545.29	544.25	543.23	542.23
	2.50%	505.35	504.25	503.16	502.10	501.06	500.04	499.04

Costco Wholesale Corp (NASDAQ: COST)

Company Overview

Industry Overview

Investment Thesis

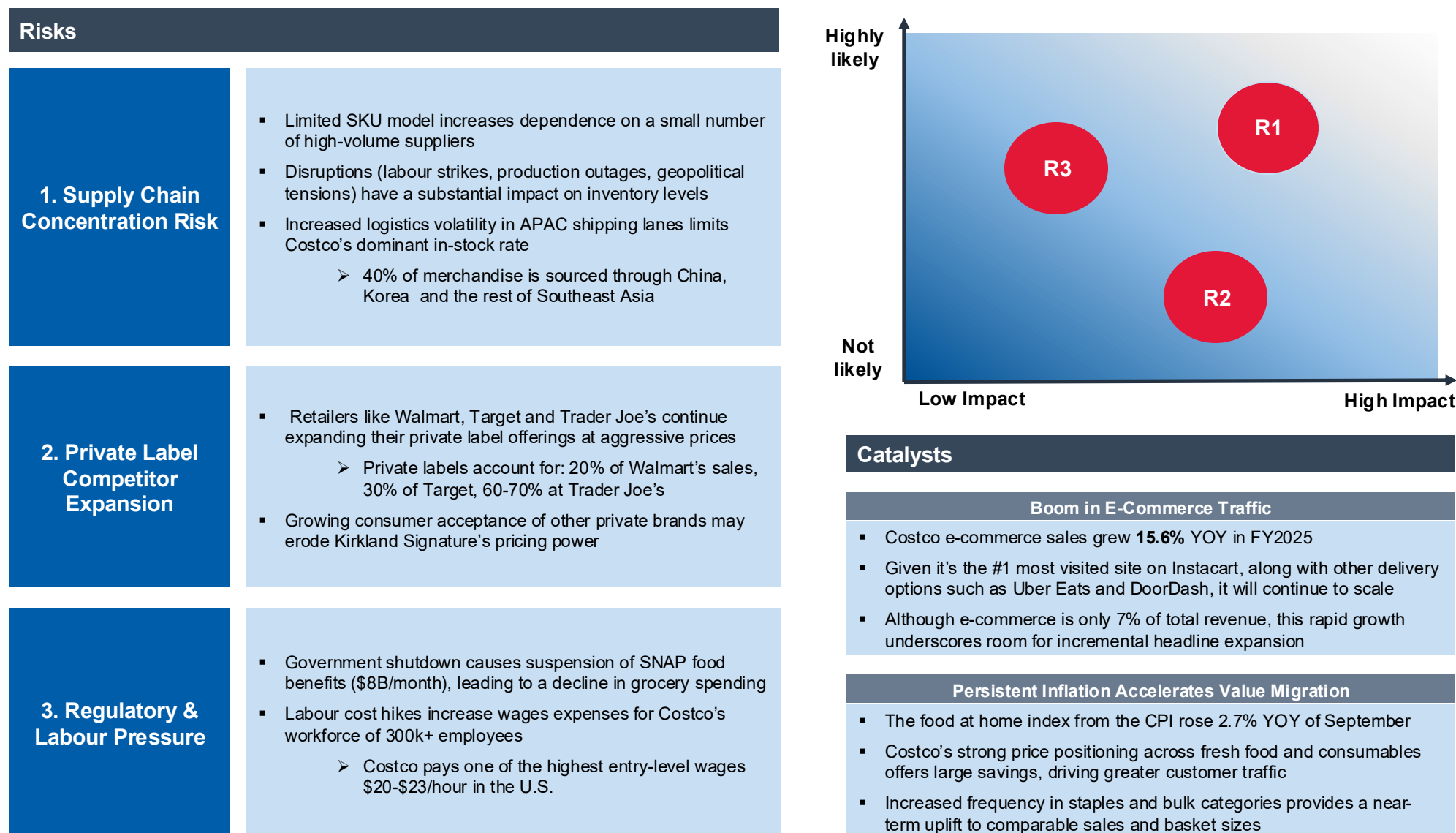
Valuation

Risks & Catalysts

Recommendation

Risks & Catalysts

Costco faces supply-chain concentration, rising private-label competition, and labour pressures, but strong catalysts offset these risks. Rapid e-commerce growth and inflation-driven value migration continue to boost traffic and basket sizes.



Costco Wholesale Corp (NASDAQ: COST)

Company Overview

Industry Overview

Investment Thesis

Valuation

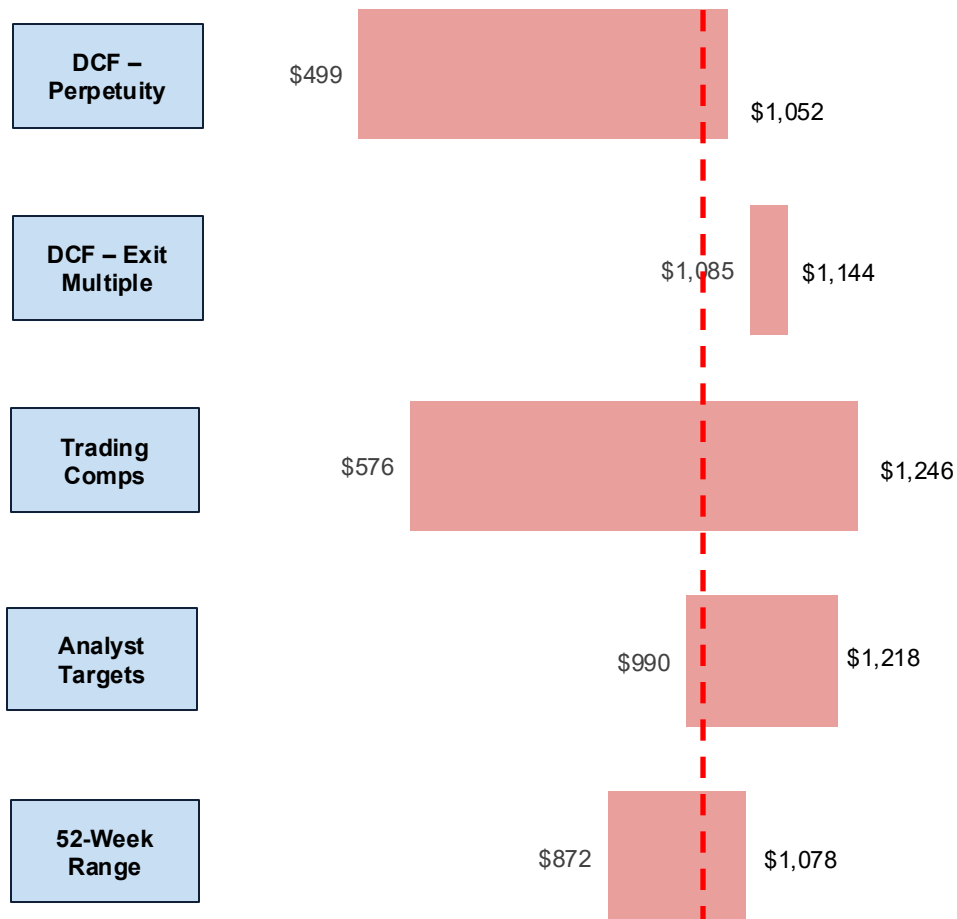
Risks & Catalysts

Recommendation

Buy With A Price Target Of \$1,025.03

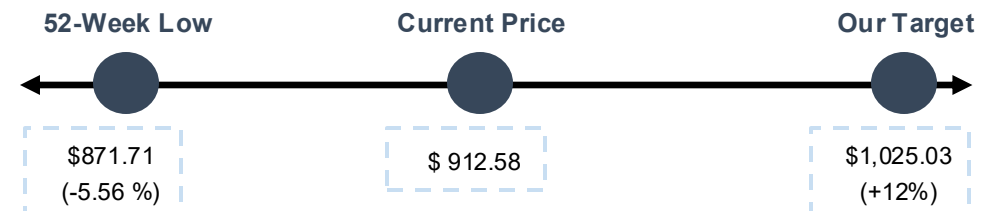
In the CFAC case, this results in an implied upside of ~12%.

Indicative Valuation Range

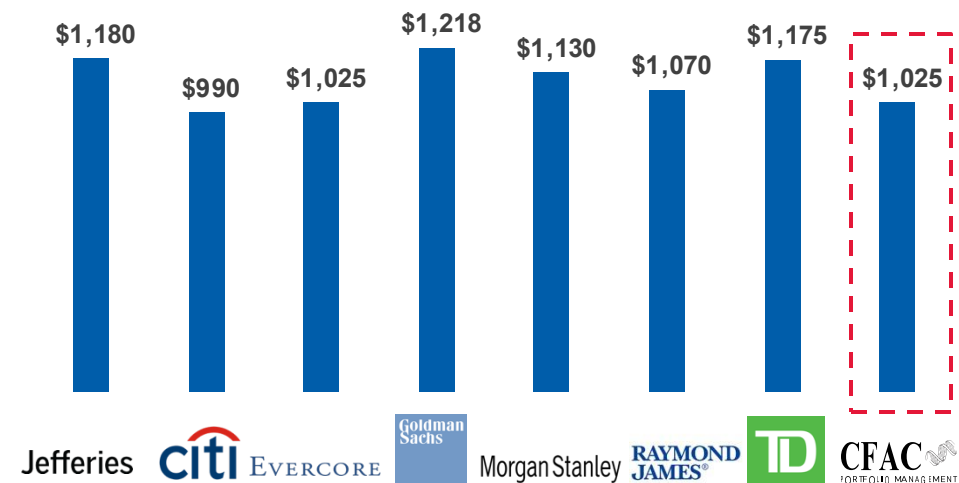


Price Target

Valuation Summary - Price Target		
Analysis	Price	Weight
DCF - Exit Multiple	\$1,088.31	85%
DCF - Perpetuity	\$666.42	15%
Weighted Average	\$1,025.03	



Selected Broker Summary



The valuation analysis supports a 'Buy' recommendation with a target price of \$1,025.03, implying a 12% upside from the current price of \$912.58