

Fundamental Analysis

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Cash Flow Crew

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Presentation Roadmap

- 1) **Company Introduction**
- 2) **Investment Proposal**
- 3) **Valuation and DCF Analysis**
- 4) **Risk Analysis**
- 5) **Industry Deep Dive**
- 6) **Management and Corporate Governance**
- 7) **Conclusion**

Introduction

Stock Overview

Company Name:	Costco Wholesale Corporation	Company Ticker:	COST
Sector:	Consumer Staples	Industry:	Warehouse Clubs
Market Capitalization:	\$434.28 B	Adjusted Beta (5Y):	0.74
Shares Outstanding:	443.48 M	Volume:	1,721,668
Valuation Date:	09/01/2025	Price, Valuation Date:	\$979.25
Target Date:	09/10/2026	Target Price:	\$1,093.00

Business Model Overview

■ Core Business Model

We operate **membership** warehouses and e-commerce sites based on the concept that offering our members **low prices on a limited selection** of nationally-branded and private-label products in a wide range of categories will produce **high sales volumes and rapid inventory turnover**.

■ Operational Philosophy

When combined with the operating efficiencies achieved by **volume purchasing, high-velocity items, efficient distribution and reduced handling** of merchandise in no-frills, self-service warehouse facilities, these volumes and turnover enable us to operate profitably at **significantly lower gross margins** than most other retailers.

■ Key Differentiator

We often **sell inventory before we are required to pay for it**, even while taking advantage of early payment discounts

Regional Performance

Region	Warehouses	Revenue	Rev. per warehouse	% of total rev.
United States	614	\$ 184,143	\$ 299.91	72.4%
Canada	108	\$ 34,874	\$ 322.91	13.7%
Other International	168	\$ 35,436	\$ 210.93	13.9%

*Other International include Mexico, Japan, the U.K., Korea, Australia, Taiwan, China, Spain, France, Iceland, New Zealand, and Sweden.

Proposed Decision

Action:	Buy
Number of Shares:	11
Cost:	\$10,646.90
What to Sell?	ICSH
How much to Sell?	0



Valuation

Assumptions

1) Store's growth rate is 5%

The following graph provides information concerning average sales per warehouse over a 10-year period.

Year Opened	# of Whses	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024										
2024	29									\$	170										
2023	23								\$	151	166										
2022	23							\$	150	158	179										
2021	20						\$	140	158	172	187										
2020	13					\$	132	152	184	193	215										
2019	20				\$	129	138	172	208	216	226										
2018	21			\$	116	119	141	172	202	214	231										
2017	26		\$	121	142	158	176	206	237	247	262										
2016	29	\$	87	97	118	131	145	173	204	212	222										
2015 & Before	686	\$	162	162	168	181	189	199	225	256	266										
Totals	890	\$	162	\$	159	\$	163	\$	176	\$	182	\$	192	\$	217	\$	245	\$	252	\$	260
			2015	2016	2017	2018	2019	2020	2021	2022	2023	2024									

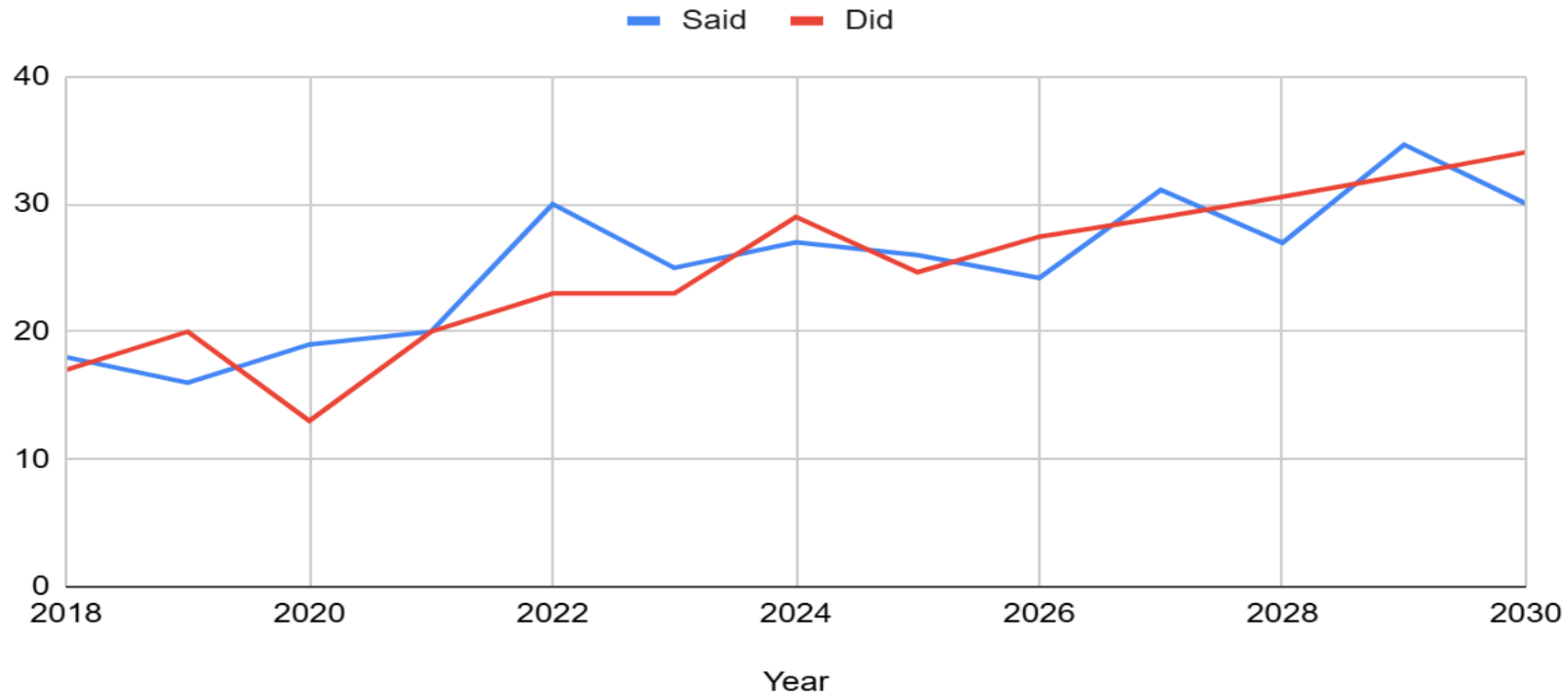
*First year sales annualized.
2017 and 2023 were 53-week fiscal years but have been normalized for purposes of comparability.

Item 6—Reserved

Assumptions

2) Store growth rate is 6.5%, which contributes 3.5% overall growth rate.

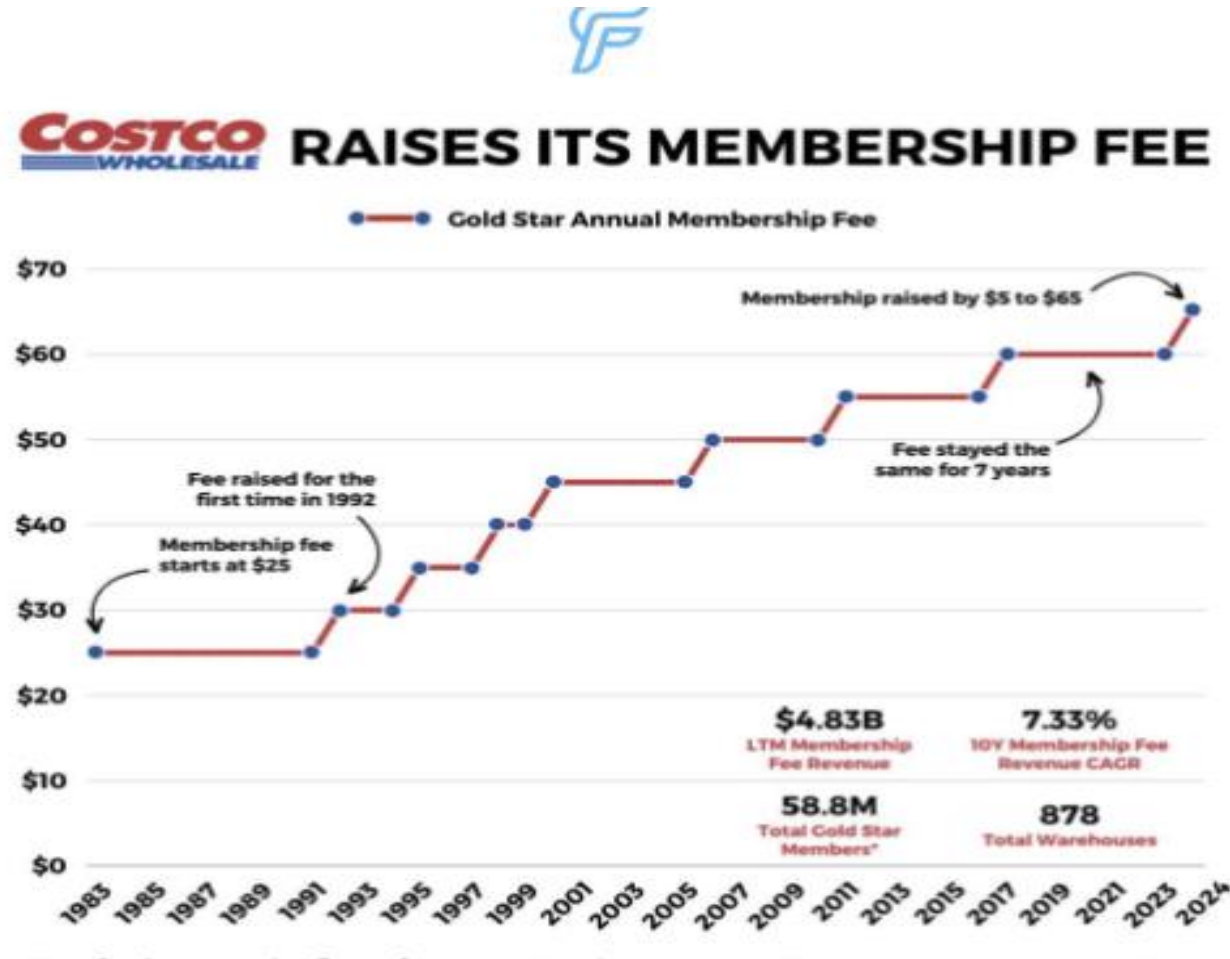
Said and Did/ Say-Do-Ratio



Say-Do-Ratio is 0.95

Assumptions

3) Membership fee increases



Assumptions

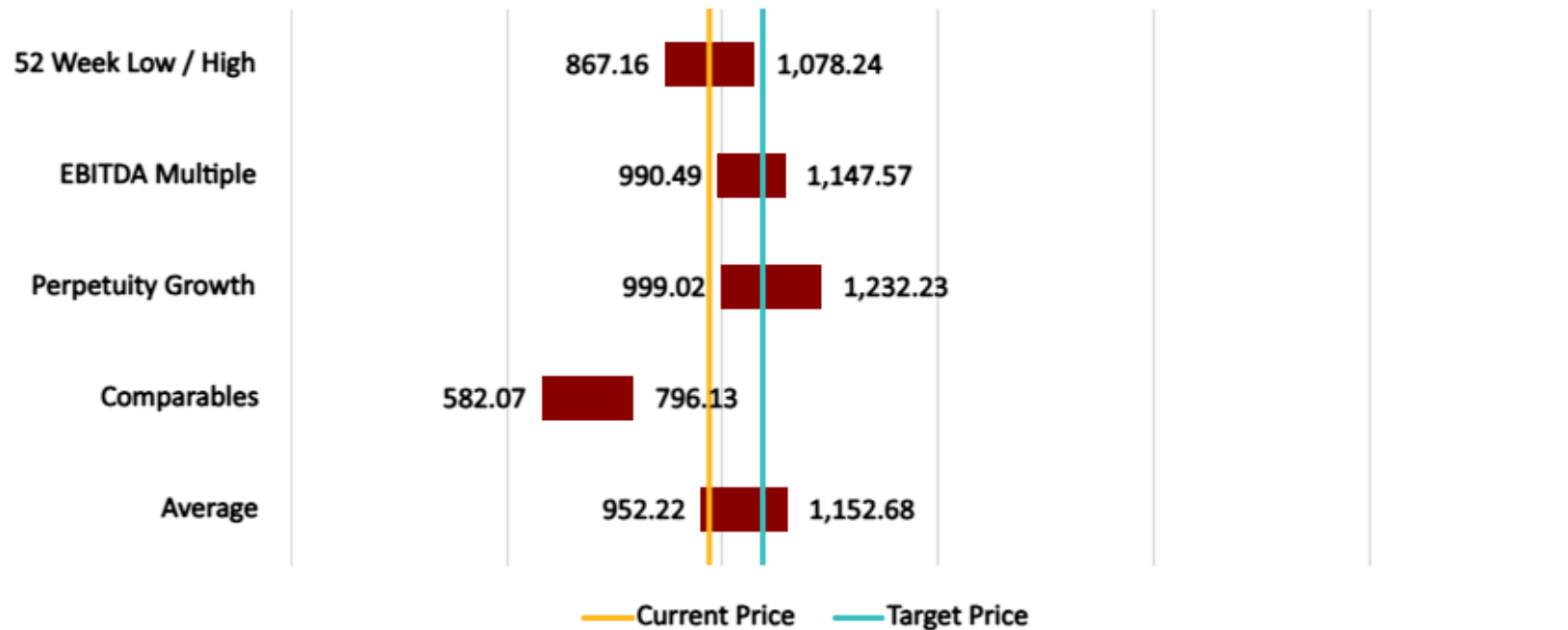
Valuation Date:	9/8/2025	N Forecasted Years:	5
Revenue Growth Method:	5 Year CAGR - Inflation + Adjust	Rev. Growth Rate:	11%
Dividend Growth Method:	NA	Risk-Free Rate:	10-year US Treasury
WACC Calc. Method:	Bloomberg	WACC:	8.3%
		Cost of Equity:	8.36%
DCF Methods:	Perpetual Growth EBITDA Multiple	Perpetuity Growth Rate:	5%
		Exit EV / EBITDA Multiple:	18.9x
Comparable Metrics	EV/Sales, EV/EBITDA, EV/EBIT, P/E	Number of Peers:	3

Results

Model	Base	Bear	Spread	Bull	Valuation Weight
Average	1,082.05	952.22	200.46	1,152.68	35%
Comparables	698.47	582.07	214.06	796.13	5%
Perpetuity Growth	1,193.63	999.02	233.21	1,232.23	30%
EBITDA Multiple	1,080.68	990.49	157.08	1,147.57	30%
52 Week Low / High	971.85	867.16	211.08	1,078.24	
Target Price	1,095.93	959.23	197.95	1,157.18	100%

Results

Valuation Range and Implied Share Price

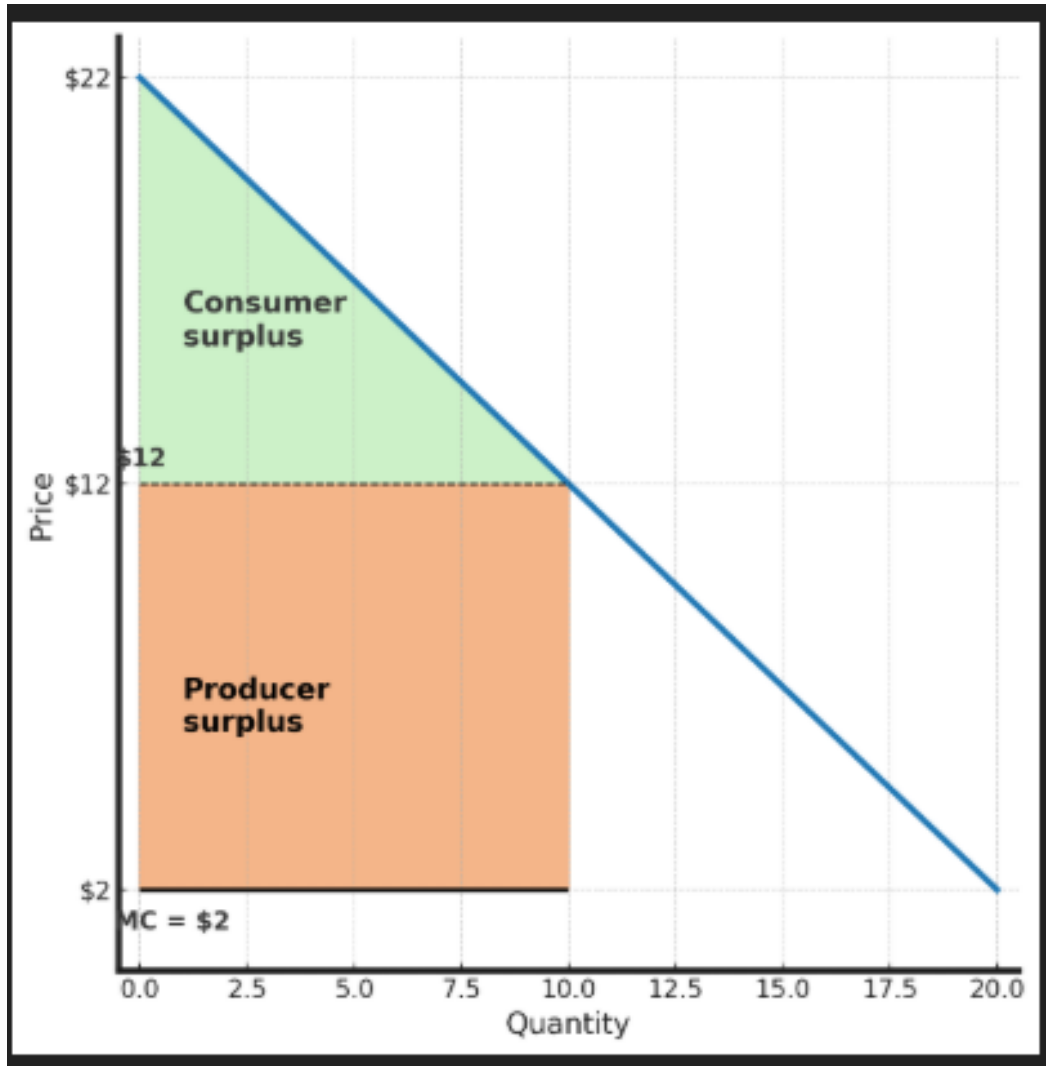


	Current	Bear	Base	Bull
Stock Price	971.85	959.23	1,095.93	1,157.18
Upside (Downside)		(12.62)	124.08	185.33
Upside (Downside) %		-1.3%	12.8%	19.1%



Company Analysis

The Economics of Subscription Pricing



Demand

Demand for Costco products remains resilient, driven by value proposition with emphasis on low prices, quality, and membership loyalty.

Aspect	Detail
Comparable sales	Growth of 5.7% companywide in Q3, sustained consumer interest in bulk value purchases amid economic uncertainty.
E-commerce demand	Surging 18% in Q3, fueled by digital enhancements like app-based deals and same-day delivery partnerships
Membership loyalty	Metrics remaining elevated, with renewal rates at 92.7% in the U.S. and over 132 million global cardholders
Traffic trends	Showing a 5.2% worldwide increase in Q3, with U.S. visits up 5.5%

Competitive Advantage

Business model is centered on membership-driven warehouse retail and direct consumer value.

Aspect	Detail
Scale and Efficiency	Direct manufacturer relationships, enabling <14% markups vs. 30%+ for traditional retail, 3,600 positions only
Membership Loyalty	132 million cardholders with 92.8% renewal rate in US, executive membership is 47% but generate 73% of company sales
Private Label Strength	Kirkland Signature ~33% of sales, with higher (>15%) margins
Global Network	906 warehouses across 14 countries, with ancillary services like gas/pharmacy driving foot traffic

Growth Potential

Poised for sustained growth, with strategic investments in international expansion and digital channels.

Expansion Initiative	Detail
International Growth	Plan for 27 new warehouses, focusing on Asia, incl China, Japan
E-Commerce Acceleration	Further increasing e-commerce, targeting partnerships for same-day delivery and app enhancements
Membership Enhancements	Recent fee hike expected to add \$400M annually
Sustainability and Innovation	Investments in health products to align with consumer trends, projecting 5-7% CAGR through 2030

Operational Efficiency

The cornerstone of Costco's strategy, with significant improvements reflected in the financial results.

Efficiency Measure	Detail
Inventory Turnover	~12x annually, with negative working capital model (sells inventory before paying suppliers)
Supply Chain Optimization	Cross-docking and bulk logistics reduce costs
Digital and Labor Management	AI for demand forecasting; low turnover with above-average wages, supporting 70-hour warehouse ops
Financial Efficiency	Operating margin ~3.7% in Q3 YTD (up 10 bps YoY), ROE ~30%

SWOT Analysis

- Dominant market position in warehouse retail with ~55% US share and strong brand loyalty.
- Membership fees provide stable revenue.
- Efficient low-cost model driving consistent comp sales growth (6.9% FY2025).

- Limited e-commerce penetration (~7% of sales) vs. rivals like Amazon.
- Dependence on US/Canada (~73% sales), exposing to regional slowdowns.
- Thin margins (net ~2.9%) vulnerable to cost inflation.

Strengths

Weaknesses

Opportunities

Threats

- Expansion into emerging markets, targeting 30+ new warehouses annually.
- Digital growth and partnerships to capture online demand.
- Rising health/sustainability trends boosting private label and organics.

- Intense competition from Walmart, Amazon, and discounters eroding share.
- Supply chain risks, inflation, and tariffs impacting costs.
- Economic recessions reducing discretionary bulk purchases

Key Risks & Scenario Analysis

Business model is centered on membership-driven warehouse retail and direct consumer value.

Aspect	Detail
Macro Risks	Defensive but sensitive to inflation, recessions, and FX (27% international sales)
Regulatory/ESG	Tariffs on imports, labor laws, and sustainability scrutiny; ESG rating low risk overall
Operational Risks	Supply chain disruptions (e.g., port strikes), membership saturation, and e-com lag; heavy reliance on staples
Population changes	Less families in the US and the world, average family size is smaller, leading to reduction in customer base

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Industry Analysis

Current

Region	Industry Revenue (millions)	1Y Rev Growth
US/CA	370,020	4.88%
Asia Pacific	22,310	3.31%
Mexico	7,170	3.92%
Western Europe	454	10.67%
Middle East & Africa	2	-40.99%

Current

56% of American consumers hold memberships at discount warehouses.

Aspect	Detail
Market Value	North America Industry Revenue: \$370.02B
Expansion Strategy	Build locations in untapped locations
Growth	3.1% CAGR (5 years), E-commerce sales grew 14.5% in 2024, BNPL
Warehouse Clubs	1,600 North America locations, 5% of total U.S. retail sales

Growth

Warehouse clubs are expected to grow and expand through 2030. A common trend is to expand into lifestyle hubs like healthcare, travel, and other ancillary services.

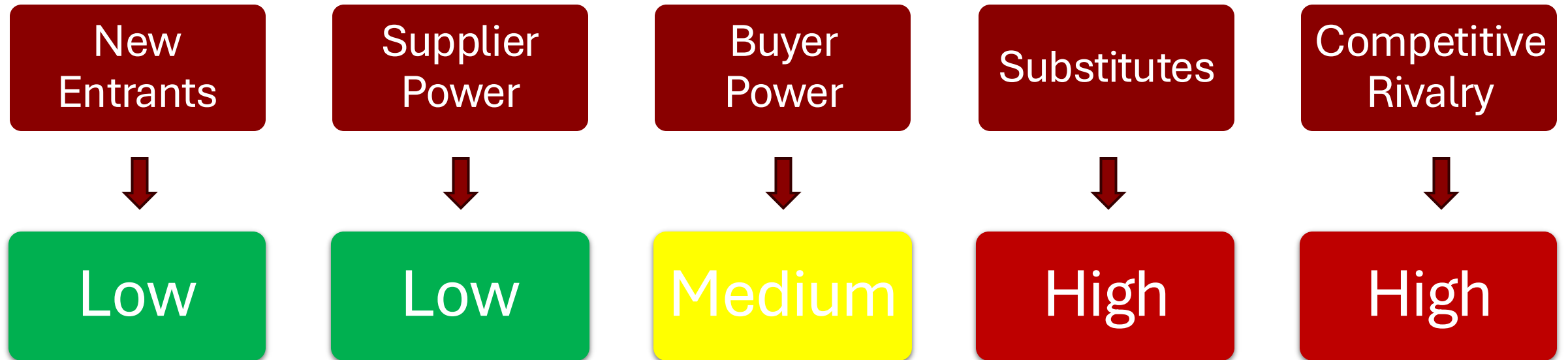
Aspect	Detail
Market Value	North America Industry Revenue 2030: \$445.13B
Tech Innovations/ESG	Omnichannel integration of "Seamless shopping", personalized marketing, Investment in green products
Growth	CAGR – 3-4.6%, health clinics, private label share
Warehouse Clubs	1,993 North America locations by 2030

Covid-19 Evolution

"COVID-19 essentially compressed a decade's worth of digital adoption into less than two years" (McKinsey & Company).

Aspect	Detail
Supply Chain	Vertical integration, investments in localized production
Global E-Commerce	Accelerated E-commerce adoption, third-party partnerships
Expansion	Stalled during COVID, store count growth is now accelerating domestically and internationally, increase in inventory
Bulk Buying	Essentials and non-perishable, at home consumption

Porter's Five Forces



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Management and Corporate Governance

Corporate Governance

Ron Vachris – President & CEO

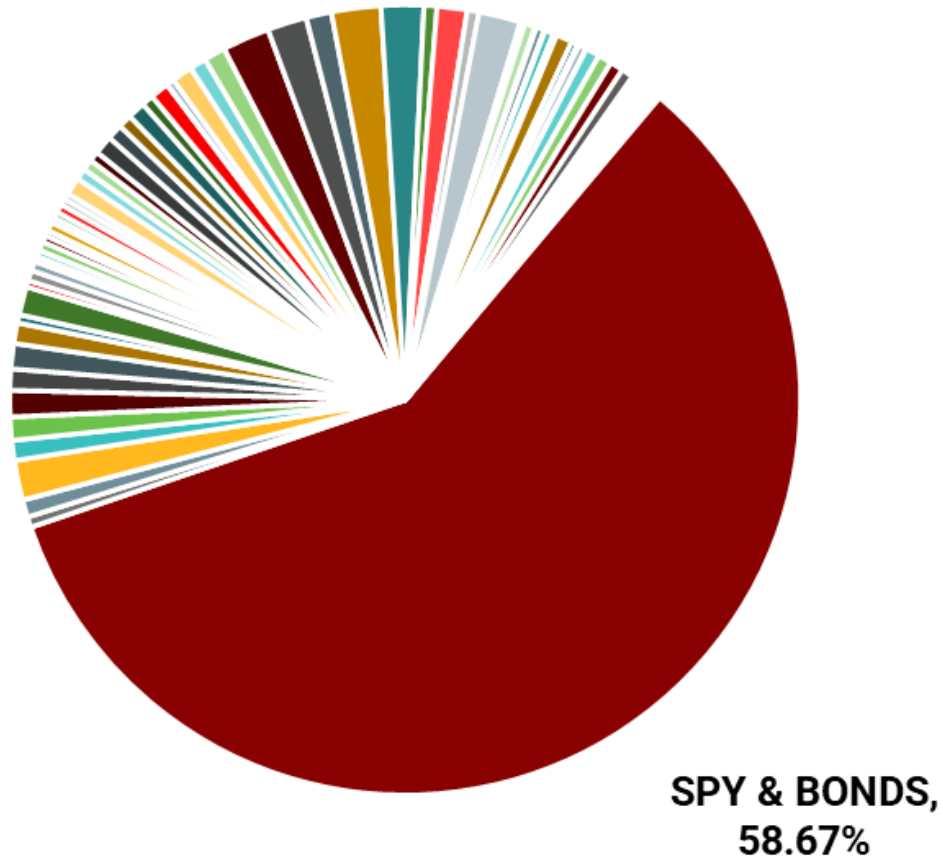


- Company lifer who started his career as a teenage forklift driver
- Third CEO of the company
- Base salary: \$1,150,000
- Total compensation: \$12.2 million in total compensation, including \$10.4-10.5 million in stock awards
- 9% employee turnover

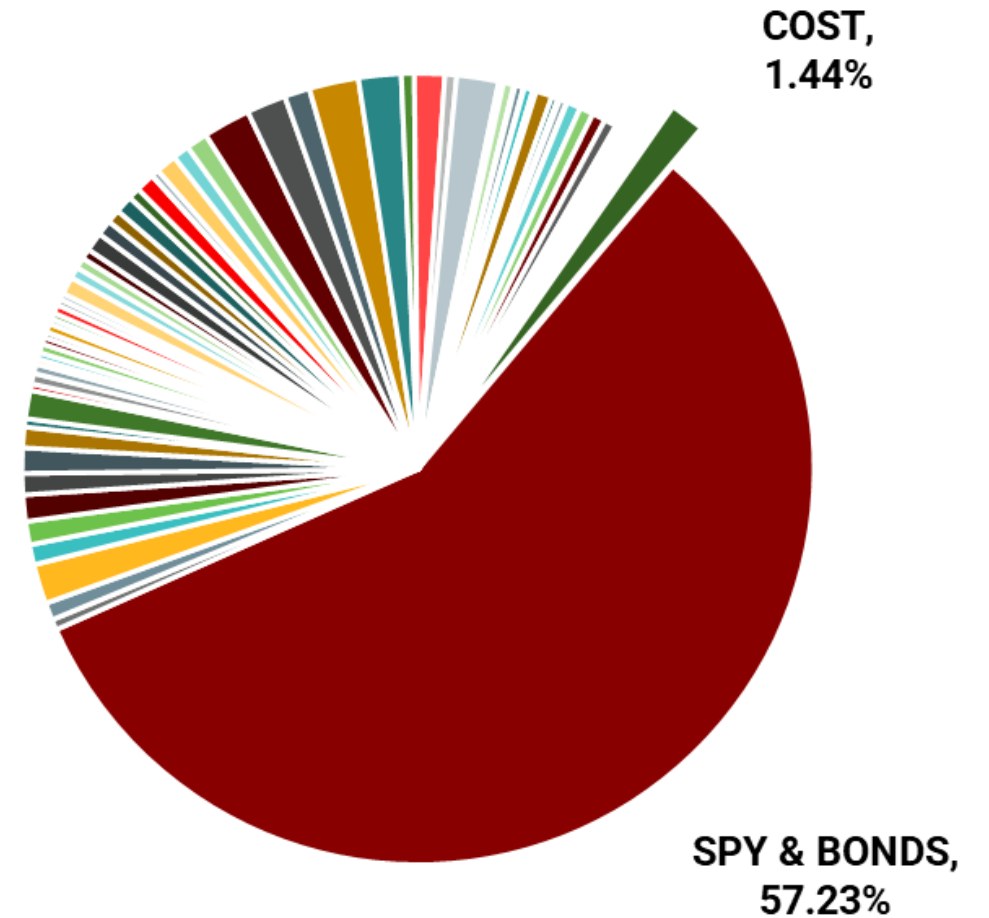
Conclusion

Change in Security Holdings

Before - Active Portfolio Weights

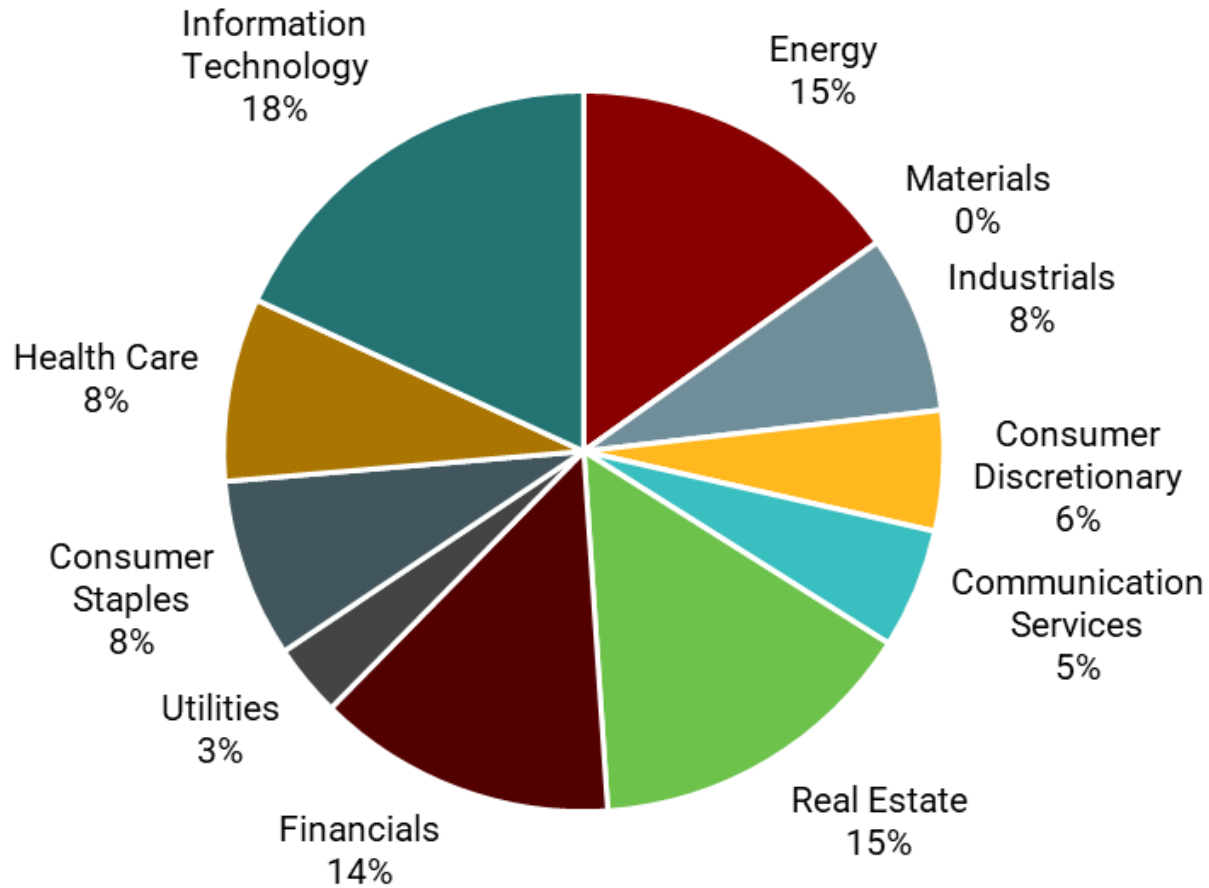


After - Active Portfolio Weights

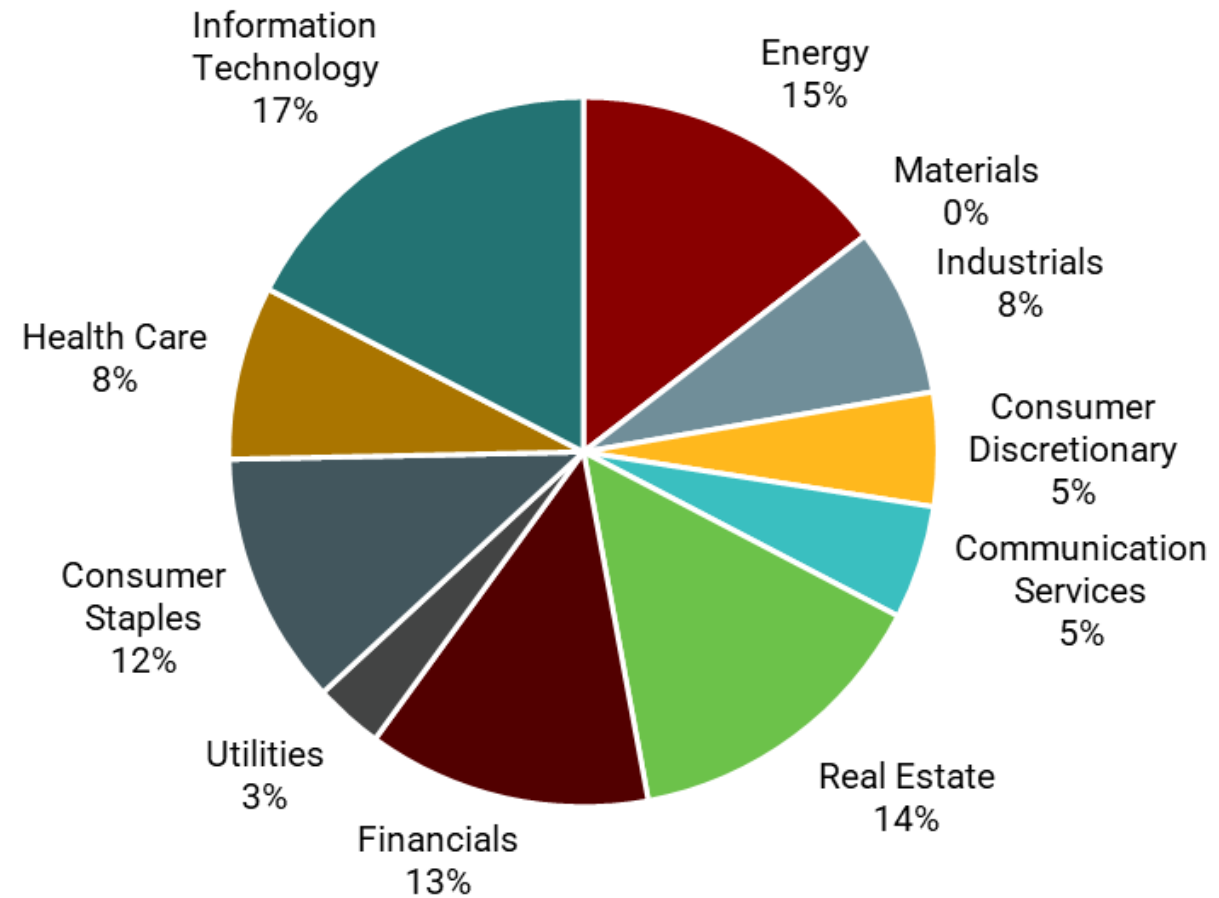


Change in Sector Allocation

Before - Sector Allocations



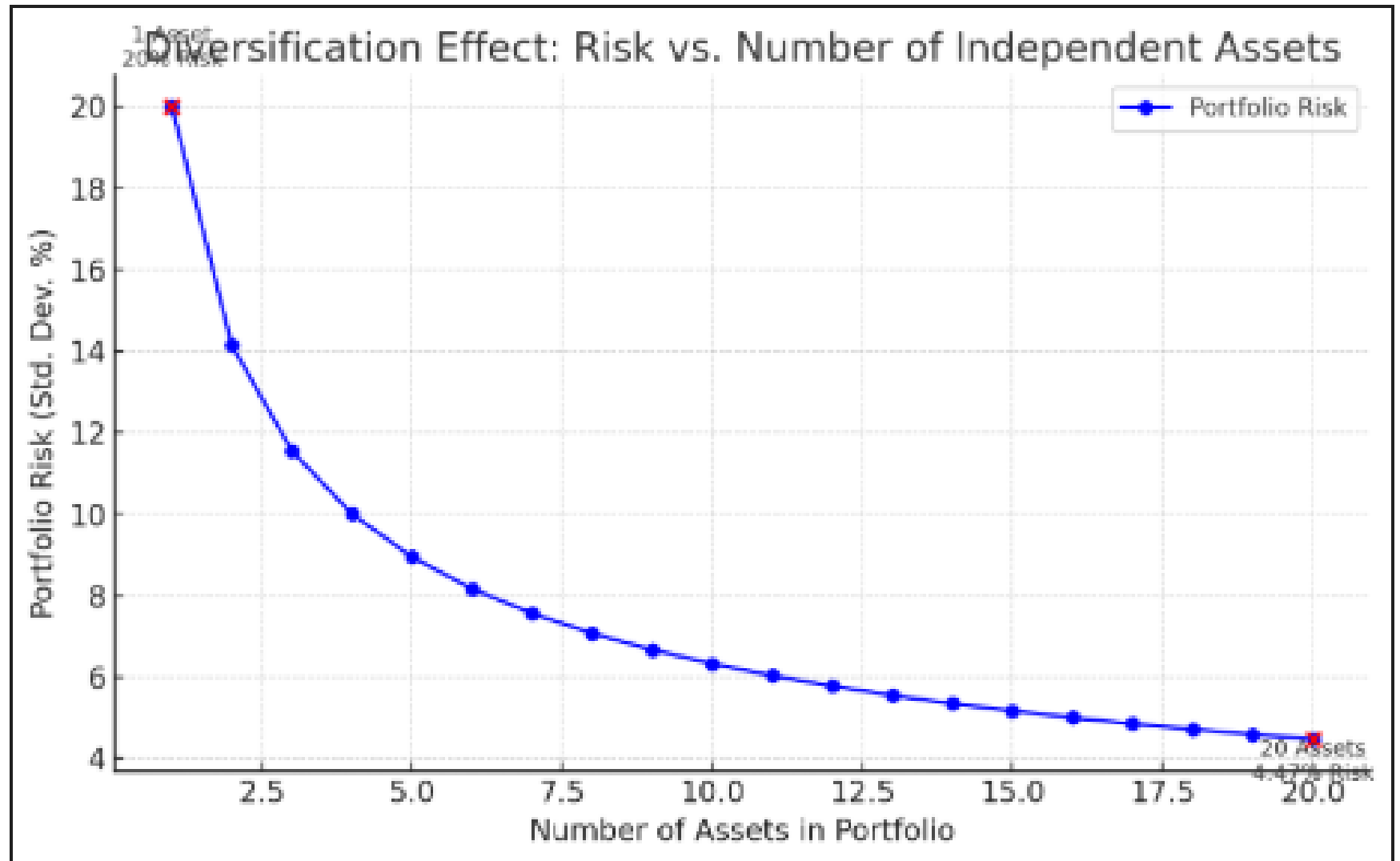
After - Sector Allocation



Important notes

Beta of COST = 0.74

With an R^2 of about 0.2

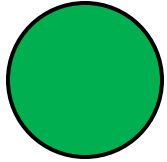


Changes in Portfolio Metrics

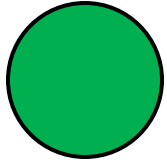
Portfolio	Exp. Return	St. Dev	Beta	Sharpe	Idio. Risk
Existing	15.88%	10.23%	0.75	1.14	10.22%
Adjusted	15.81%	10.27%	0.75	1.13	10.25%

Conclusion

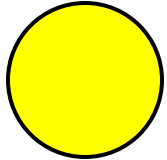
Recommendation: Buy



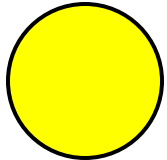
Strong Kirkland brand offerings



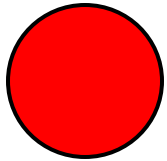
Customer and employee retention



High P/E



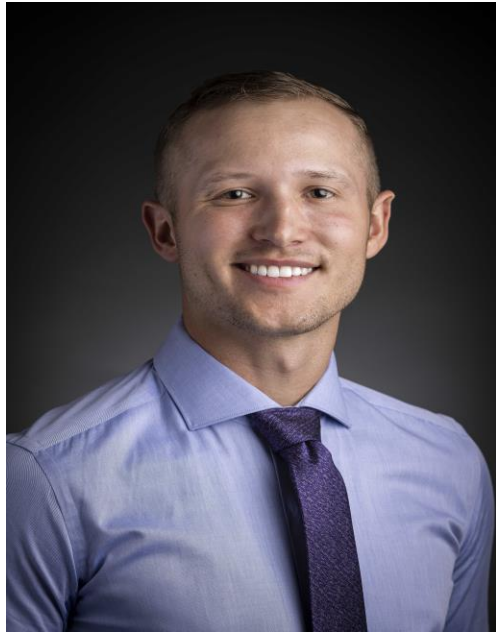
Revenue concentration – US membership



Global trend on smaller families and less bulk purchases

Thank You!

Cash Flow Crew



Spencer Gleave



John Robinson



Peter Gagne



Robert Garaishin