

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

An aerial photograph of the University of Utah campus, showing various academic buildings, a large stadium with a red roof, and surrounding greenery. In the background, there are rolling hills and mountains under a clear sky. The image is used as a background for the presentation slide.

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? SPY

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.

Average Sales Per Warehouse* (Sales in Millions)											
Year Opened	# of Whses										
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
			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.

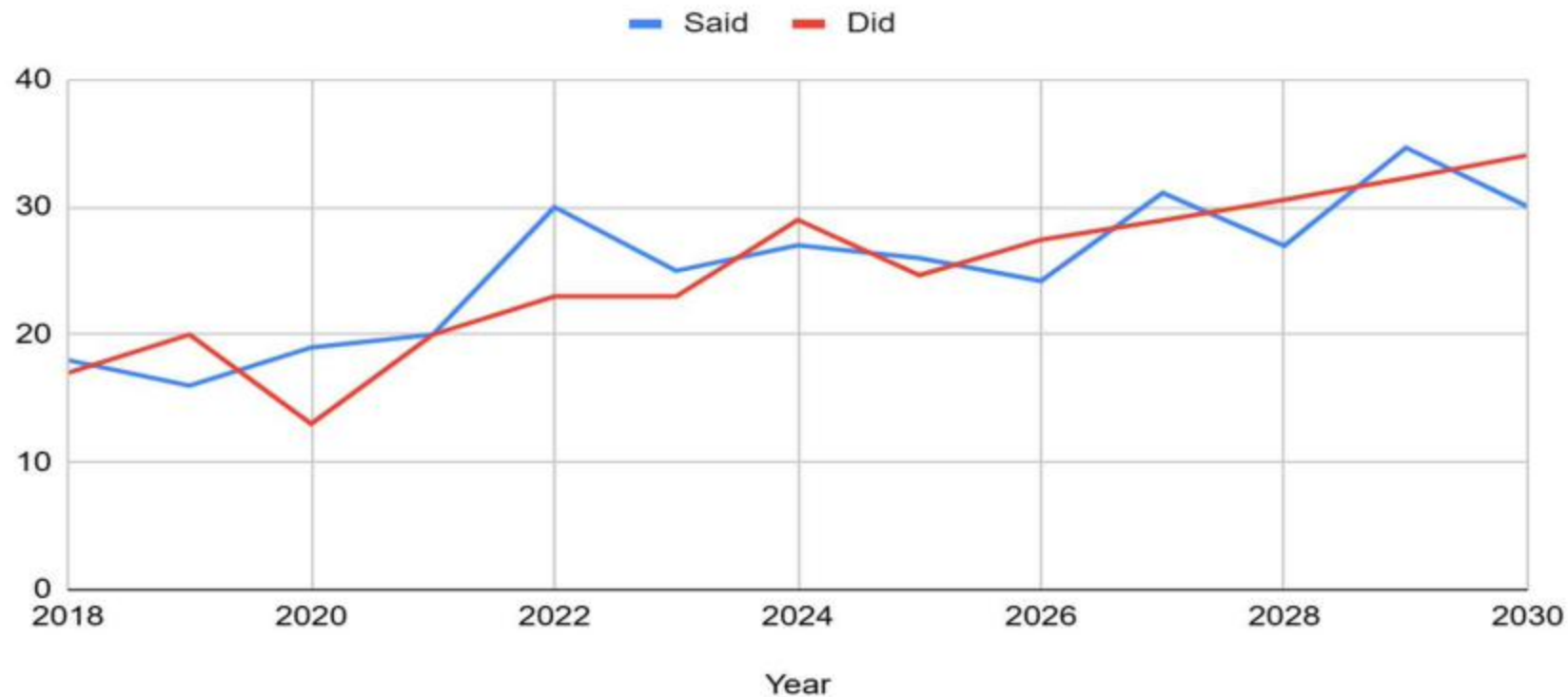
Item 6—Reserved

Assumptions

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

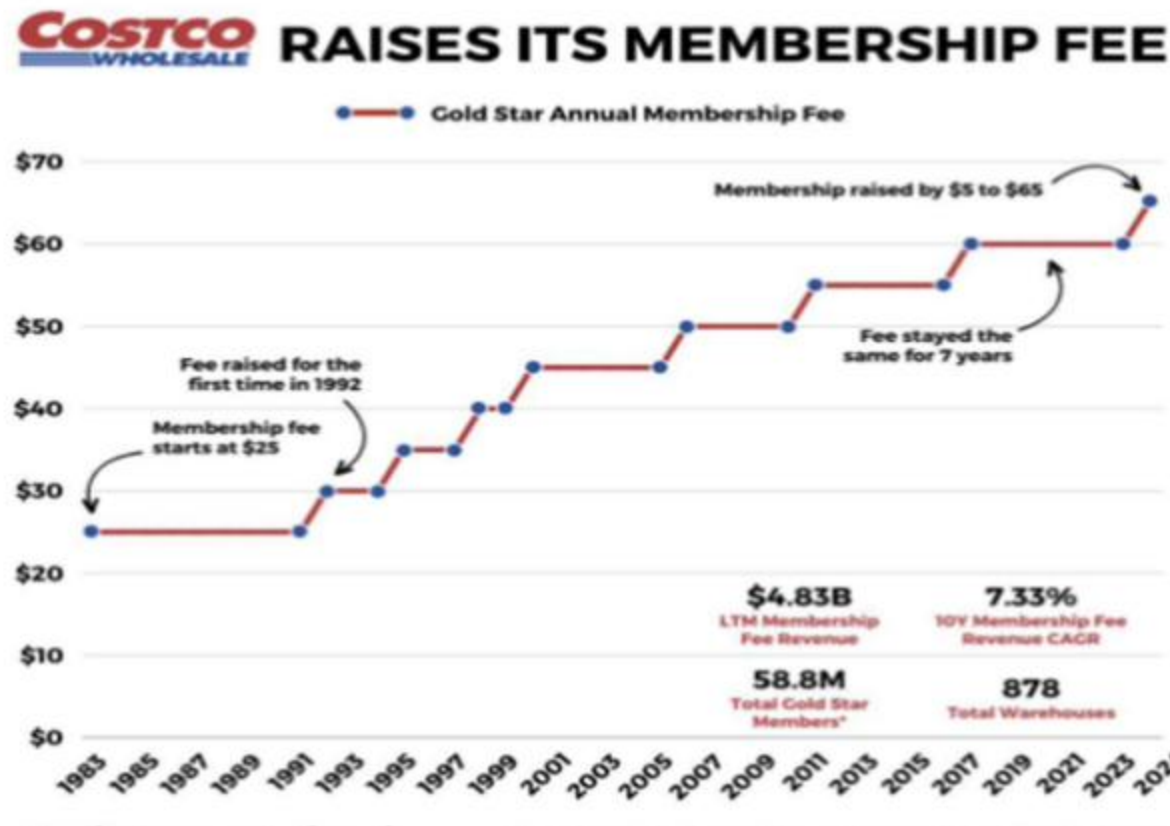
Said and Did/ Say-Do-Ratio

Say-Do-
Ratio is
0.95



Assumptions

3) Membership fee increases



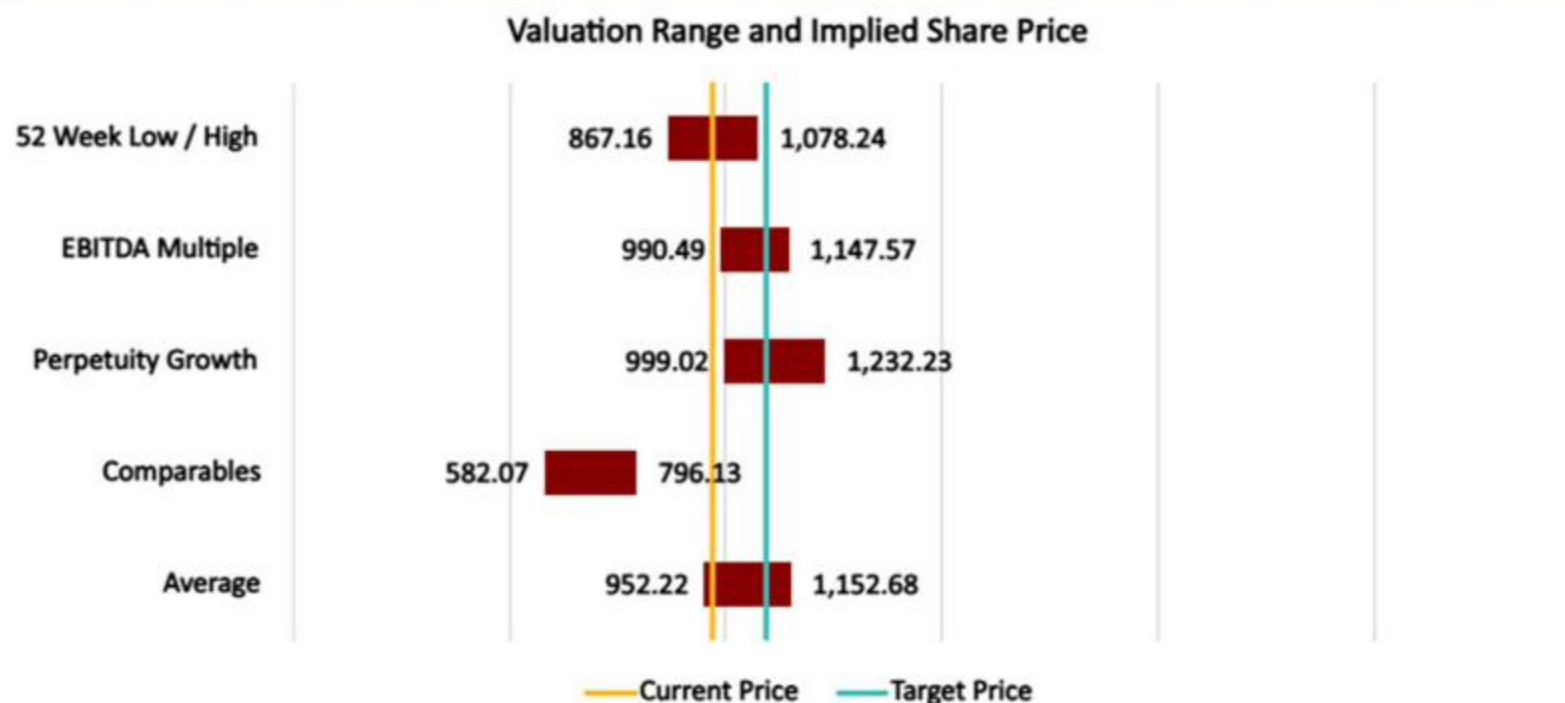
Assumptions

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

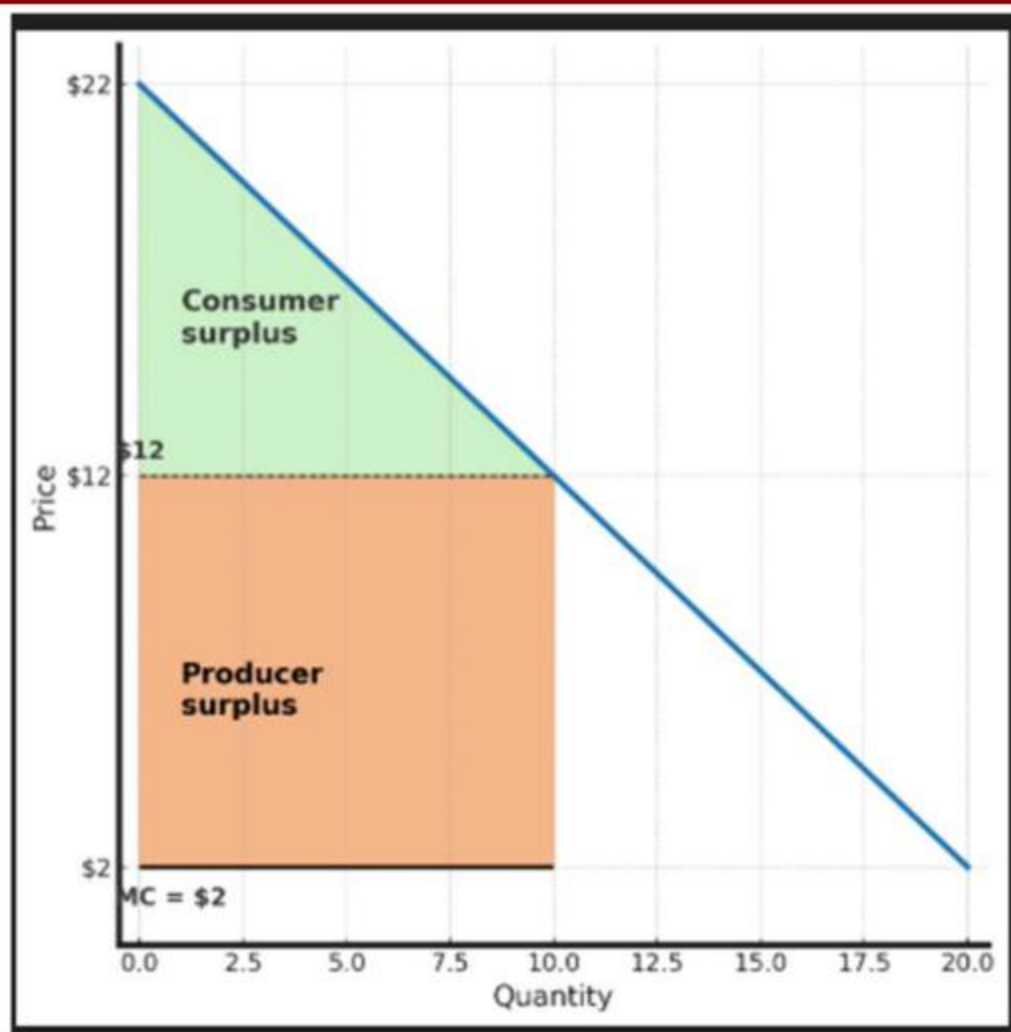


	Current	Bear	Base	Bull
Stock Price	971.85	959.23	1,095.93	1,157.18
Upside (Downside)		(12.62)	124.08	185.33
Upside (Downside) %		-1.3%	12.8%	19.1%



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	Online sales are up, targeting partnerships for same-day delivery and app enhancements
Membership Enhancements	Recent fee hike expected to add \$400M annually
Sustainability and Innovation	Investments in renewables and 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.
- High-margin membership fees (~\$5.2B est. FY2025) 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.

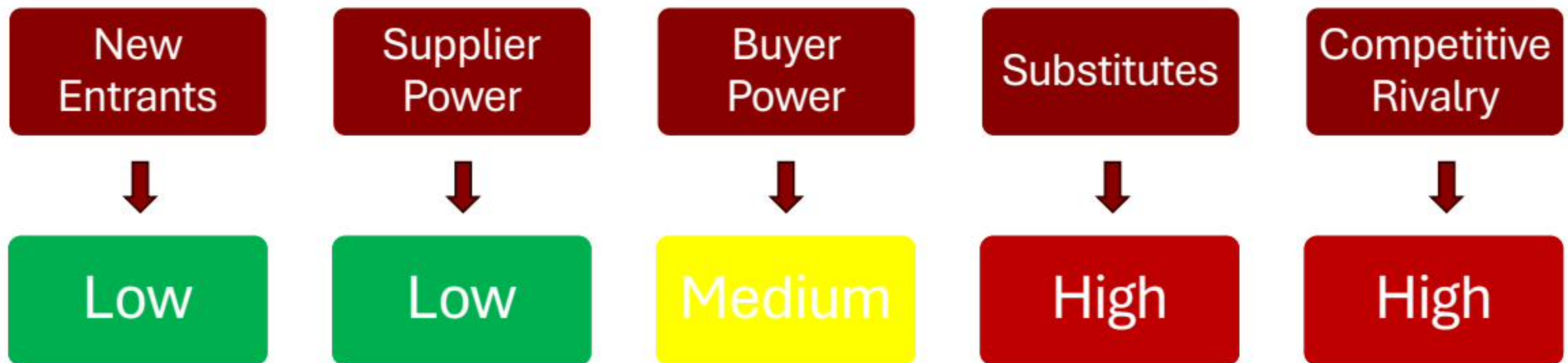
Aspect	Detail
Market Value	North America Industry Revenue 2030: \$445.13B
Tech Innovations/ESG	Omnichannel integration of "Seamless shopping", personalized marketing, Investment in green products
Growth	CAGR – 3-4.6%, health clinics, private label share
Warehouse Clubs	1,993 North America locations by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

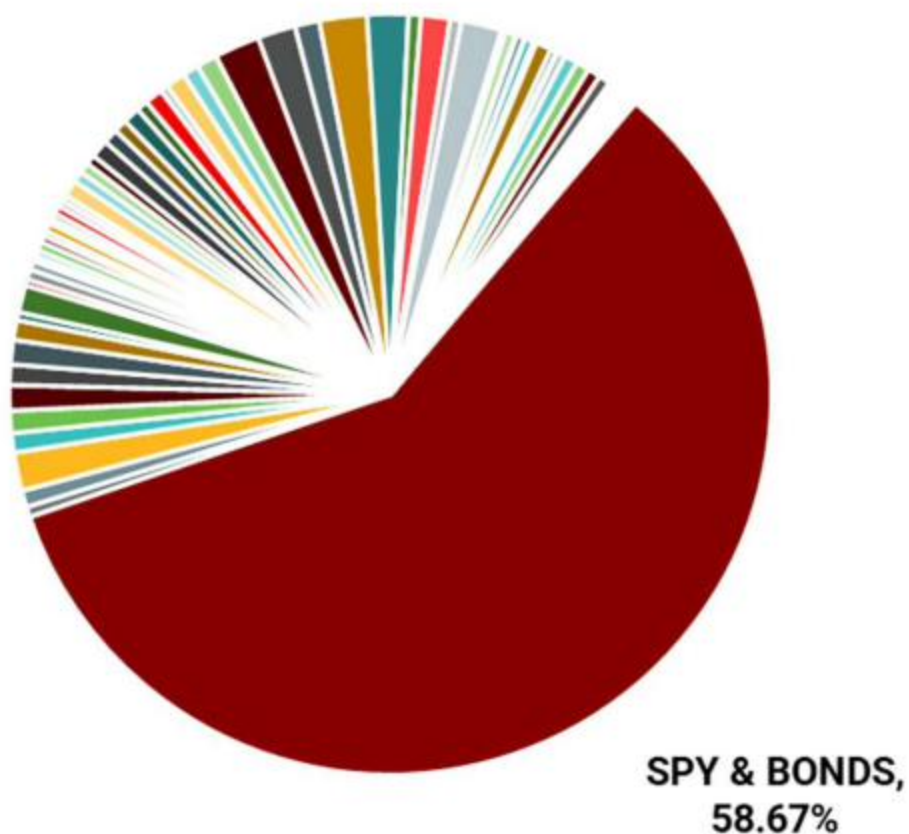


- Company lifer who started his career as a teenage forklift driver
- Third CEO of the company
- Base salary: \$1,150,000
- Total compensation: \$12.2 million in total compensation, including \$10.4-10.5 million in stock awards
- 9% employee turnover

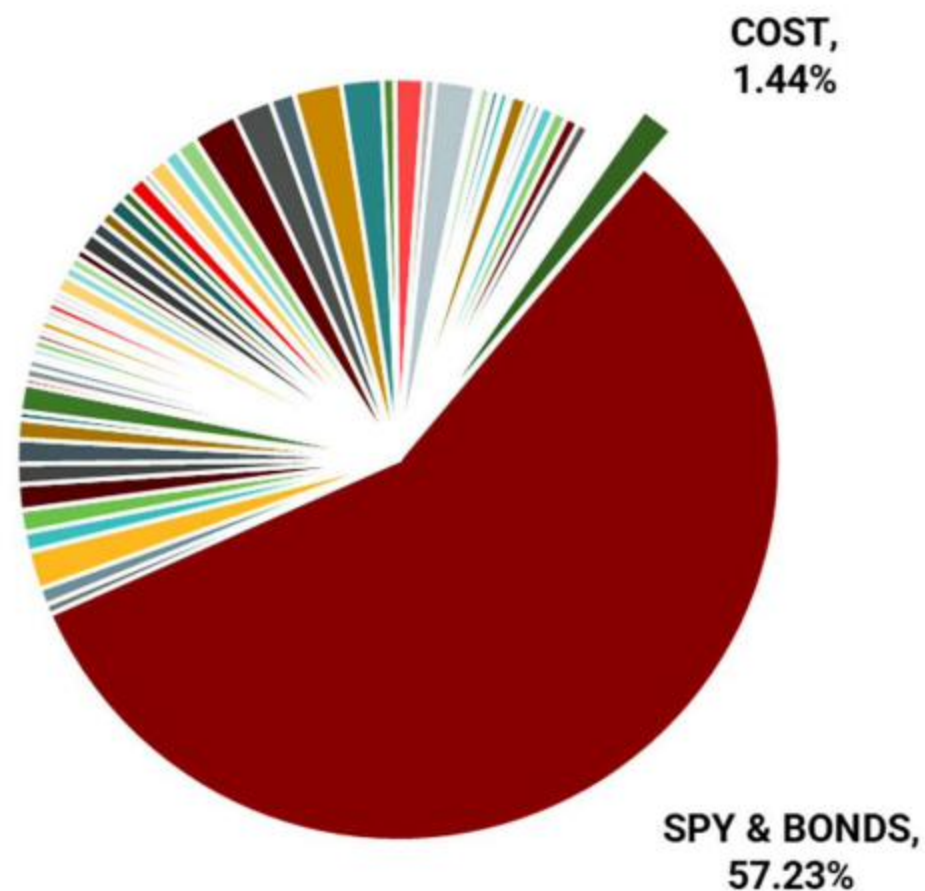
Conclusion

Change in Security Holdings

Before - Active Portfolio Weights

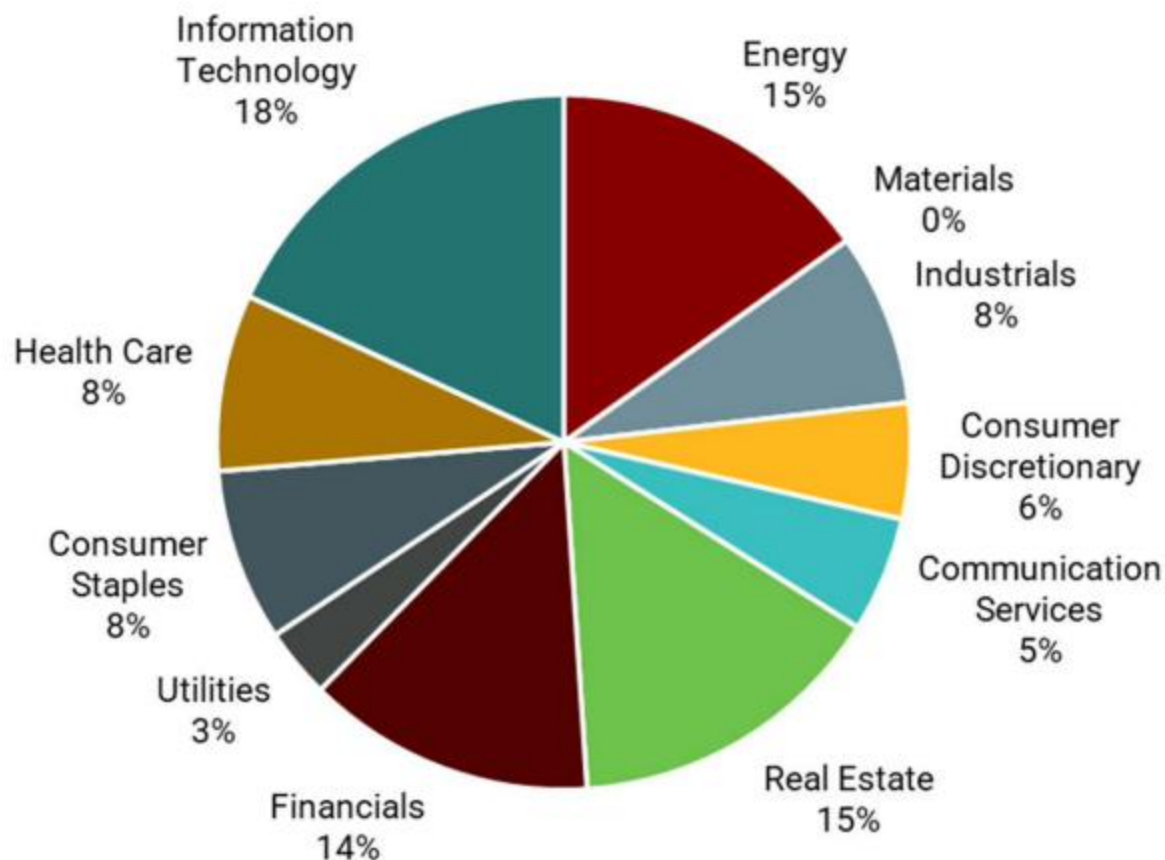


After - Active Portfolio Weights

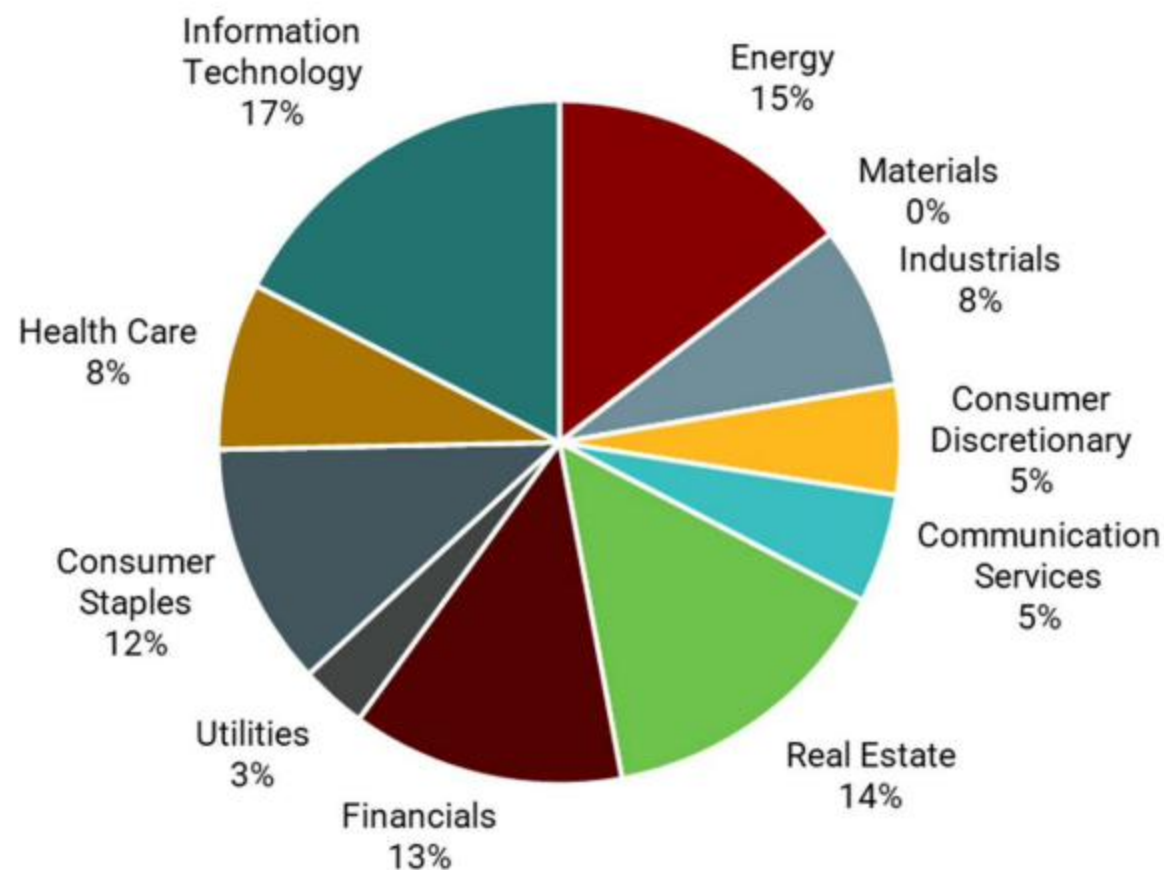


Change in Sector Allocation

Before - Sector Allocations



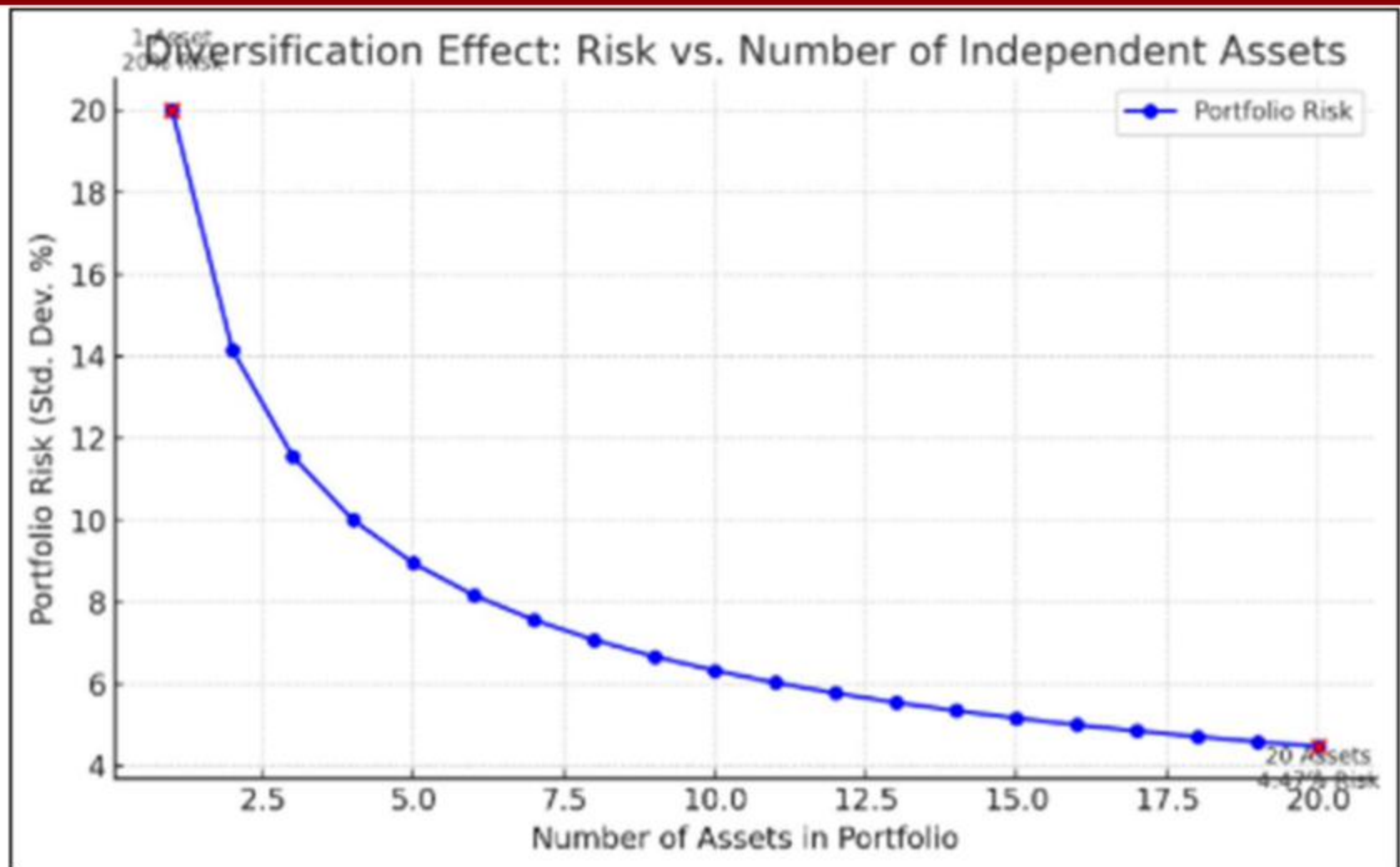
After - Sector Allocation



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

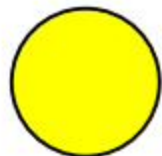
Recommendation: Buy



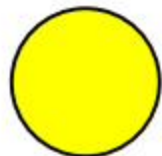
Strong Kirkland brand offerings



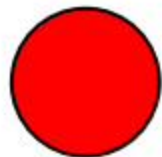
Customer and employee retention



High P/E



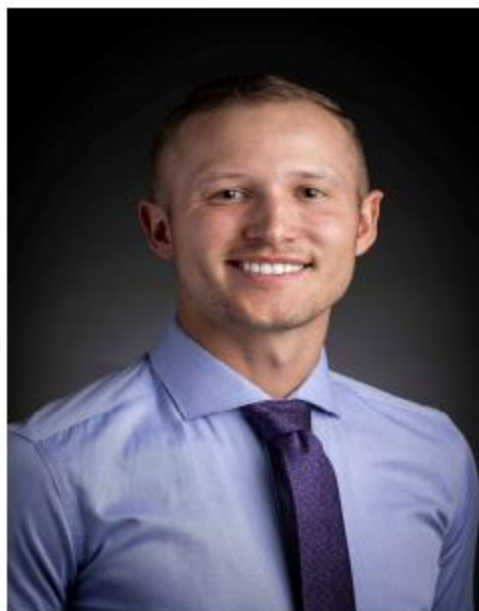
Revenue concentration – US membership



Global trend on smaller families and less bulk purchases

Thank You!

Cash Flow Crew



Spencer Gleave



John Robinson



Peter Gagne



Robert Garaishin



Appendix

Key Terms

Performance Metrics

- **Alpha (α):** Measures a strategy's performance relative to a benchmark. Positive alpha indicates outperformance.
- **Sharpe Ratio:** Risk-adjusted return based on total risk (Return - Risk-Free Rate) / Standard Deviation.
- **Sortino Ratio:** Similar to Sharpe, but only considers downside risk, ignoring positive volatility.
- **Information Ratio:** Measures returns above a benchmark relative to the tracking error.
- **Treynor Ratio:** Risk-adjusted performance based on beta (Return - Risk-Free Rate) / Beta.

Parameters

- **Market Cap:** Total value of a company's shares (Share Price \times Total Shares Outstanding).
- **P/E Ratio:** Price-to-Earnings Ratio. Measures how much investors pay per dollar of earnings.
- **Rebalance:** Adjusting portfolio holdings to match the desired allocation (e.g., quarterly).

Risk Measures

- **Beta (β):** Measures sensitivity to market movements. A beta of 1 means the stock moves with the market.
- **Idiosyncratic Risk:** Risk unique to a specific asset, not due to market movements (e.g., company-specific events).
- **Systematic Risk:** Market-wide risk that affects all securities (e.g., interest rate changes).
- **Standard Deviation (σ):** Measures volatility by showing how much returns deviate from the average.
- **Max Drawdown:** The maximum observed loss from peak to trough during a specific period.
- **SML (Small Minus Large):** Measures the excess return of small-cap stocks over large-cap stocks.
- **HMB (High Minus Low):** Measures the excess return of high book-to-market stocks over low book-to-market stocks.

Key Terms

Valuation Terms

- **EV = Enterprise Value:** the measure of a company's total value. It looks at the entire market value rather than just the equity value, so all ownership interests and asset claims from both debt and equity are included. EV can be thought of as the effective cost of buying a company or the theoretical price of a target company (before a takeover premium is considered).
 - Simple EV = Market Capitalization + Market Value of Debt – Cash and Equivalents
 - Extended EV = Common Shares + Preferred Shares + Market Value of Debt + Noncontrolling Interest – Cash and Equivalents
- **TV = Terminal Value:** the estimated value of a business beyond the explicit forecast period. It is a critical part of the financial model, as it typically makes up a large percentage of the total value of a business. There are two approaches to the DCF terminal value formula: perpetual growth and exit multiple.
 - Perpetual Growth: Used by Academics, assumes business will continue to generate Free Cash Flow at a normalized rate forever.
 - Exit Multiple: Used by Industry, assumes business is sold for a multiple of some metric, typically EBITDA, based on currently observed comparable trading multiples.
 - $TV = \text{Financial Metric (i.e. EBITDA)} \times \text{Trading Multiple}$
- **RV = Relative Valuation:** Models are used to value companies by comparing them to other businesses based on certain metrics such as EV/Revenue, EV/EBITDA, and P/E ratios. The logic is that if similar companies are worth 10x earnings, then the company that's being valued should also be worth 10x its earnings. The two most common types of relative valuation models are **comparable company analysis** and **precedent transactions analysis**.
- **EBITDA = Earnings before Interest, Taxes, Depreciation, and Amortization:**
 - The EBITDA metric is a variation of operating income (EBIT) that excludes certain non-cash expenses. The purpose of these deductions is to remove the factors that business owners have discretion over, such as debt financing, capital structure, methods of depreciation, and taxes (to some extent). It can be used to showcase a firm's financial performance without the impact of its capital structure.
 - EBITDA is not a recognized metric in use by IFRS or US GAAP. In fact, certain investors like Warren Buffet have a particular disdain for this metric, as it does not account for the depreciation of a company's assets.

Key Terms

Valuation Terms Continued

- **NOPAT = Net Operating Profit After Tax:** NOPAT stands for Net Operating Profit After Tax and represents a company's theoretical income from operations if it had no debt (no interest expense). NOPAT is used to make companies more comparable by removing the impact of their capital structure. In this way, it's easier to compare two companies in the same industry (i.e., one with no leverage and the other with significant leverage).
- **Spread:** The difference or gap between two related values, such as buying or selling prices.
- **CAGR = Compound Annual Growth Rate:** The measure of an investment's annual growth rate over time, with the effect of compounding considered. It is often used to measure and compare the past performance of investments or to project their expected future returns.
 - $CAGR = (Ending\ Value / Beginning\ Value)^{(1 / No.\ of\ Periods)} - 1$.
- **WACC = Weighted Average Cost of Capital:** Used in financial modeling as the discount rate to calculate the net present value of a business. More specifically, WACC is the discount rate used when valuing a business or project using the **unlevered free cash flow** approach. Another way of thinking about WACC is that it is the required rate an investor needs to consider investing in the business.
- **Unlevered versus Levered:**
 - Levered cash flow is the amount of cash a business has after it has met its financial obligations.
 - Unlevered free cash flow is the money the business has before paying its financial obligations.
 - It is possible for a business to have a negative levered cash flow if its expenses exceed its earnings.
- **Bloomberg's Debt Adjustment Factor:** Represents the average yield above government bonds for a given rating class. The lower the rating, the higher the adjustment factor. The debt adjustment factor (AF) is only used when a company does not have a fair market curve (FMC). When a company does not have a credit rating, an assumed rate of 1.38 (the equivalent rate of a BBB+ Standard & Poor's long term currency issuer rating) is used. **The exact calculation of the debt adjustment factor is a Bloomberg proprietary calculation.**