

Costco Wholesale Corporation - One Page Investment Thesis



Costco Wholesale (COST) is a compelling long-term investment due to its resilient business model, driven by a strong membership base and unmatched pricing power. With consistent revenue growth, robust financial health, and significant expansion opportunities, Costco is well-positioned to deliver steady returns to shareholders.

Key Financial Metrics	Aug-19	Aug-20	Aug-21	Aug-22	Aug-23	Share Price - 1Y
Revenue (in Millions)	\$ 152,703.0	\$ 166,761.0	\$ 195,929.0	\$ 226,954.0	\$ 242,290.0	
Revenue Growth (YOY)	7.86%	9.21%	17.49%	15.83%	6.76%	
Gross Profit Margin	12.98%	13.09%	12.88%	12.15%	12.42%	
EBITDA Margin	3.16%	3.26%	3.47%	3.49%	3.51%	
EBT Margin	3.12%	3.22%	3.45%	3.51%	3.66%	
Net Margin	2.43%	2.43%	2.64%	2.66%	2.76%	
Earnings Per Share (in \$)	\$ 8.42	\$ 9.18	\$ 11.65	\$ 13.60	\$ 15.06	
EPS Growth	16.19%	8.95%	26.97%	16.70%	10.72%	
P/E Ratio	35.4x	39.4x	39.9x	35.9x	39.9x	
EV/EBITDA	20.3x	21.3x	22.7x	20.7x	22.9x	
Industry Specific Metrics	Aug-19	Aug-20	Aug-21	Aug-22	Aug-23	
Same Store Sales Growth	6.00%	9.00%	13.00%	11.00%	5.00%	
Total Stores Operated	782	795	815	838	861	

Strengths

Efficient Supply Chain Management: Costco is known for its ability to manage inventory and distribution effectively, which enables it to keep prices low while maintaining a high level of product quality. Its warehouses are strategically located to minimize transportation costs, and the company negotiates directly with manufacturers to secure the best deals.

Loyal Customer Base: Customer Base of Costco increased by 8% to 127.9^[1] million with impressive renewal rate of 92.7% in US and 90.4% in Canada which accounts for majority of its warehouses.

Robust Financial Performance: Costco has consistently delivered strong revenue growth, increasing from \$152.7^[2] billion in 2019 to \$242.3^[3] billion in 2023, with a CAGR of about 12%. Despite market challenges, Costco maintained solid margins and achieved steady EPS growth, highlighting its robust and resilient financial performance.

Weaknesses

Lack of Online Presence: lack of an online shopping option can be a disadvantage for customers who live in remote areas or those with mobility issues, who may need easy access to a physical store. It may also limit the company's ability to attract new customers who prefer to shop online or are used to the convenience of e-commerce.

Lack of Global Presence and high dependence on selected markets: Although Costco has a large number of warehouses around the world, the US and Canada account for the majority of its warehouses. They also account for 86.54%^[4] of its revenue. Out of the 861^[5] Costco warehouses around the world, 591^[6] and 107^[7] are located in the US and Canada, respectively. It means the organization lacks a global presence.

Market Opportunities

Increasing Online Sales: Costco's total revenue in FY23 was \$242.29 Billions but online sales only accounted for 9.2%^[8] whereas Walmart's (Market Leader in online sales) online sales accounted for 18.11%^[9] for its total sales. Costco can benefit from expanding their online presence by offering various online services as well as enhancing online customer experience.

Increasing International Presence: There are only 5^[10] warehouses (3^[11] opened in FY2023) in China, 18 in South Korea and 15 in Australia. Costco has immense opportunity to expand in these countries particularly in China which has a population of over 1 billion. Rapid economic growth in India also pose an enormous opportunity to Costco as India has youngest population in world.

Conclusion

Costco Wholesale (COST) stands out as a solid long-term investment due to its resilient business model, consistent revenue growth, and robust financial health. The company's ability to maintain strong margins and deliver steady EPS growth, even in challenging market conditions, reflects its operational efficiency. Although Costco's limited online presence and heavy reliance on the U.S. and Canadian markets present challenges, these also offer significant opportunities for expansion. Despite the premium valuation reflected by increasing P/E and EV/EBITDA ratios, Costco is still well-positioned to deliver steady returns to shareholders.

[1], [4], [5], [6], [7], [10], [11] Statista Report on Costco Wholesale: Statista. Market Share of the Leading Retailers in US E-Commerce. Available at: <https://www.statista.com/statistics/274255/market-share-of-the-leading-retailers-in-us-e-commerce/>

[2], [3], [8] S&P Capital IQ (Student Access): Costco Financial Data. Available through S&P Capital IQ. <https://www.capitaliq.com/>

[9] Forrester Blog: US Top 10 Retailers' Total and E-Commerce Sales in 2022. Available at: <https://www.forrester.com/blogs/us-top-10-retailers-total-and-e-commerce-sales-in-2022/>