



Financial Analysis

FIN534 Signature Assignment

17 December 2023
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Introduction

COSTCO

IN 1983

**BUSINESS
INSIDER**

History

Costco History

Costco

Sept 15, 1983

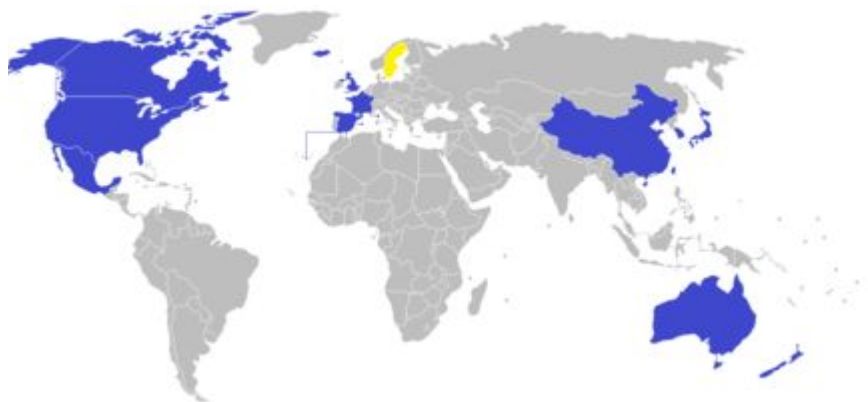
PRICE CLUB

July 12, 1976




Feb 12, 1997

591 in the US



Current Situation, Challenges, Futures

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Costco Financial (2022)

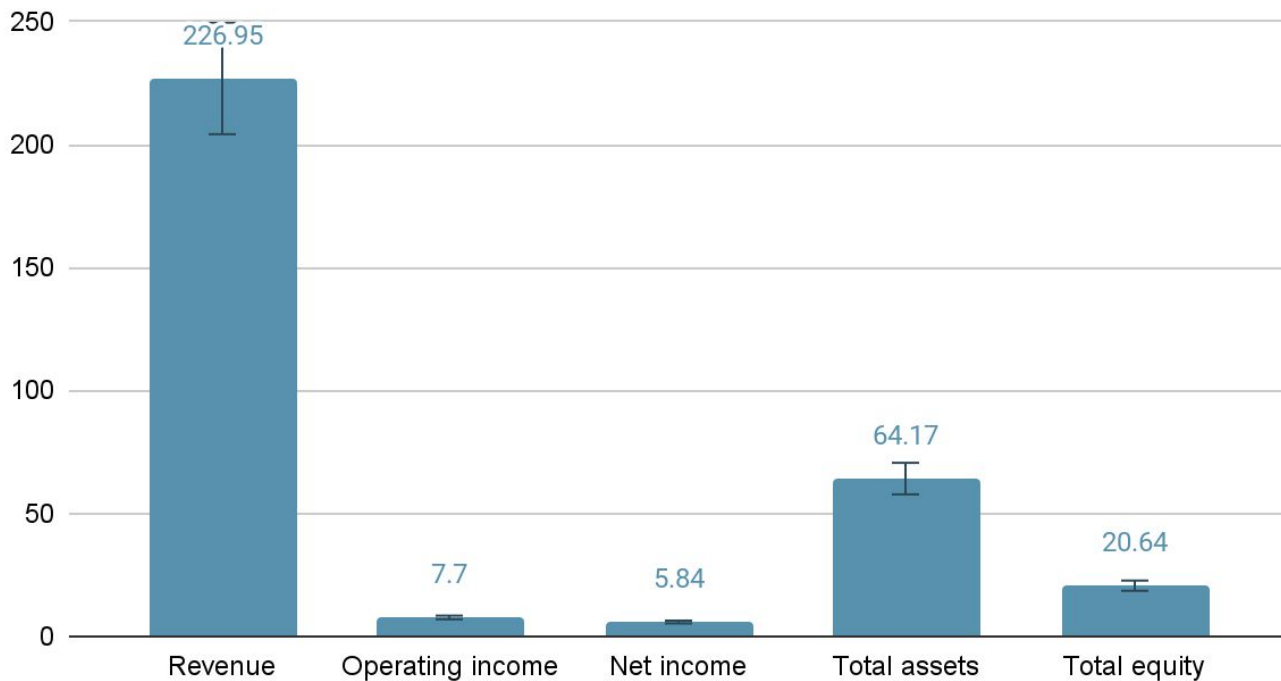
Number of
employees

304,000

Number of
memberships

118.9 million

Financial number (in US\$ billion)



S



Strengths

- Efficient Supply Chain Management
- Strong Brand Reputation
- Talented and Experienced Workforce
- Efficient Operational Processes
- Diversified Product Offerings

W



Weaknesses

- Limited product selection
- Minimal customer service
- No online shopping
- Limited payment options
- Limited store locations

O



Opportunities

- Partnerships and Acquisitions
- Membership Rewards
- Health and Wellness
- Private Label Brands

T



Threats

- International expansion risks
- Changes in trade policies and tariffs
- Rising labor costs and supply chain disruptions

Competitors

Competitors

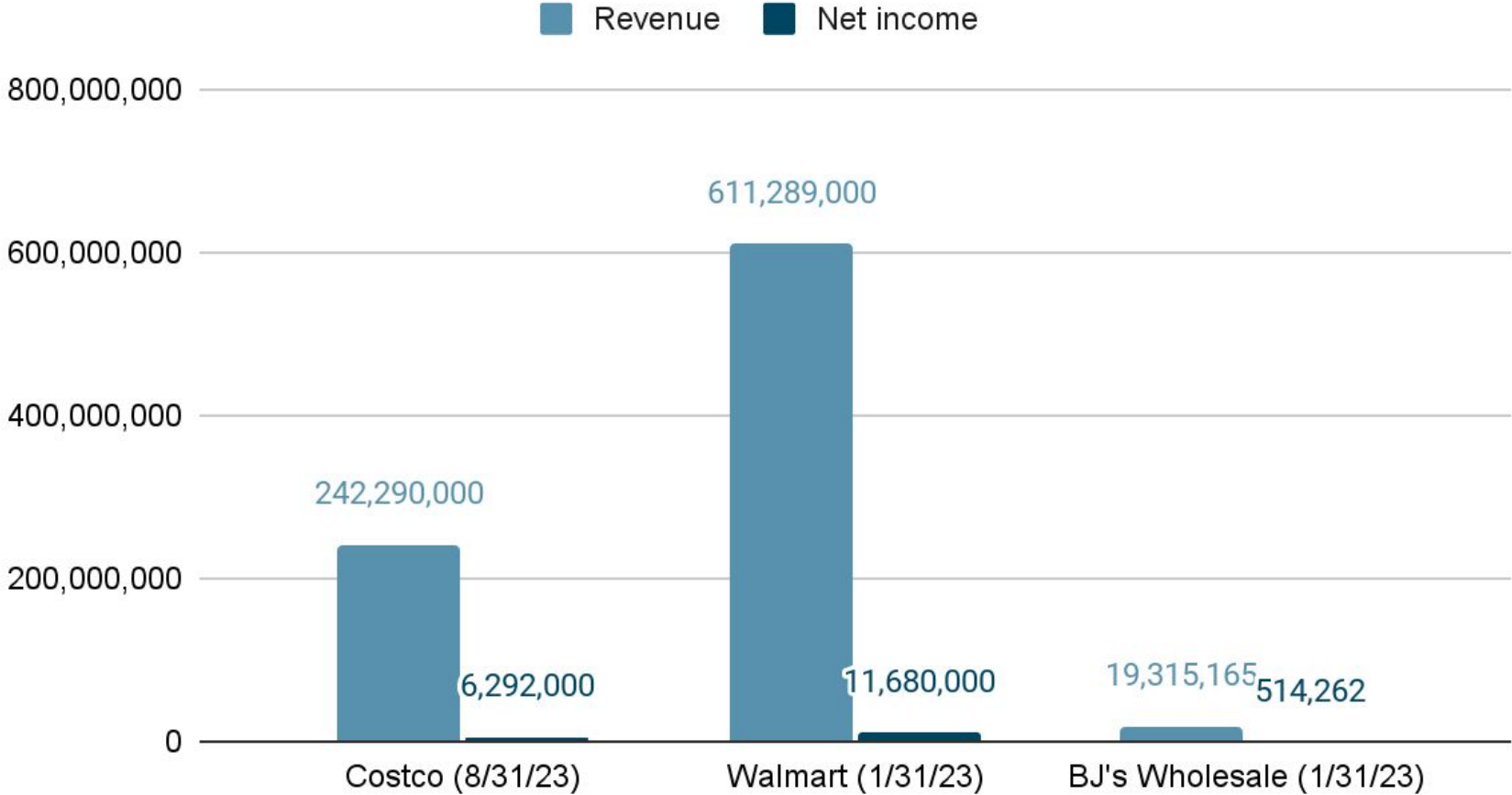
Walmart (Sam's Club)

- Founded in 1983
- As of October 2022, 600 warehouse clubs in 44 states and Puerto Rico, Mexico, China, Brazil
- Number of employees 100,000 (2021)
- Sam's Club revenue US\$84.3 billion (Jan 2023), Walmart revenue US\$611.3billion.
- Number of memberships not disclosed,

BJ's Wholesale Club

- Founded in 1984
- As of summer 2020, 217 clubs in 17 states (eastern US - Michigan, Ohio, Indiana)
- Number of employees 34,000 (Jan 2022)
- Revenue US\$19,315 billion (FY2022)
- Number of memberships 6.5 millions (2022)

US\$ in thousands



Financial Statements and Explanations

Income Statement

Gross profit margin for 2023 is 12.26% indicates more profitability over last year of 12.15%.

Operating profit margin is 3.35% means every \$1 sales it generated \$0.335 profit.

Net profit margin is 2.6% which translates to every \$1 sales, \$0.026 goes to net profit.



All numbers in thousands

Breakdown	8/31/2023	% of sales	8/31/2022	% of sales
Total Revenue	242,290,000	100%	226,954,000	100%
Cost of Revenue	212,586,000	87.74%	199,382,000	87.85%
Gross Profit	29,704,000	12.26%	27,572,000	12.15%
Operating Expense	(21,590,000)	-8.91%	(19,779,000)	-8.71%
Operating Income	8,114,000	3.35%	7,793,000	3.43%
Net Non Operating Interest Income Expense	373,000		47,000	
Other Income Expense	-		106,000	
Pretax Income	8,487,000		7,840,000	
Tax Provision	2,195,000		1,925,000	
Net Income Common Stockholders	6,292,000	2.60%	5,844,000	2.57%
Diluted NI Available to Com Stockholders	6,292,000		5,844,000	
Basic EPS	14.18		13.17	
Diluted EPS	14.16		13.14	
Basic Average Shares	443,854		443,651	
Diluted Average Shares	444,452		444,757	
Total Operating Income as Reported	8,114,000		7,793,000	
Total Expenses	(234,176,000)		(219,161,000)	
Net Income from Continuing & Discontinued Operation	6,292,000		5,844,000	
Normalized Income	6,292,000		5,844,000	
	533,000		205,000	
Interest Income	160,000		158,000	
Net Interest Income	373,000		47,000	
EBIT	8,647,000		7,998,000	
EBITDA	10,724,000		7,998,000	
Reconciled Cost of Revenue	212,586,000		199,382,000	
Reconciled Depreciation	2,077,000		1,900,000	
Net Income from Continuing Operation Net Minority Interest	6,292,000		5,844,000	
Total Unusual Items Excluding Goodwill	-		106,000	
Total Unusual Items	-		106,000	
Normalized EBITDA	10,724,000		7,998,000	
Tax Rate for Calcs	0		0	
Tax Effect of Unusual Items	0		0	

Balance Sheet

- Costco has total assets of 68 billions USD
- Compare to last year, Costco grew in value for about 5.8 billions USD.
- 52% of total assets is current assets consists of 15 billions USD in cash or equivalent.
- 48% of total assets is in buildings, vehicles, and equipment they use for their business.

All numbers in thousands

Breakdown	8/31/2023	% of assets	8/31/2022	% of assets
Total Assets	68,994,000	100.00%	64,166,000	100.00%
Current Assets	35,879,000	52.00%	32,696,000	50.96%
Cash, Cash Equivalents & Short Term Investments	15,234,000	22.08%	11,049,000	17.22%
Receivables	2,285,000	3.31%	2,241,000	3.49%
Inventory	16,651,000	24.13%	17,907,000	27.91%
Other Current Assets	1,709,000	2.48%	1,499,000	2.34%
Total non-current assets	33,115,000	48.00%	31,470,000	49.04%
Net PPE	29,397,000	42.61%	27,420,000	42.73%
Other Non Current Assets	3,718,000	5.39%	4,050,000	6.31%
Total Liabilities Net Minority Interest	43,936,000	63.68%	43,519,000	67.82%
Current Liabilities	33,583,000	76.44%	31,998,000	73.53%
Total Non Current Liabilities Net Minority Interest	10,353,000	23.56%	11,521,000	26.47%
Total Equity Gross Minority Interest	25,058,000	36.32%	20,647,000	32.18%

- Costco has liabilities of almost 44 billions USD.
- The stakeholder's equity is around 25 billions USD.

Cash Flow Statement

- Costco generated operating cash flow of \$11,068,000 from its day-to-day operations, which includes revenue from sales and deducting operating expenses.
- Costco had a investing cash outflow of \$4,972,000 for investing activities, indicating investment in assets like new equipment or acquisitions.
- Costco had financing cash outflow of \$2,614,000 for financing activities, which may include debt repayment, dividend payments, or stock repurchases.

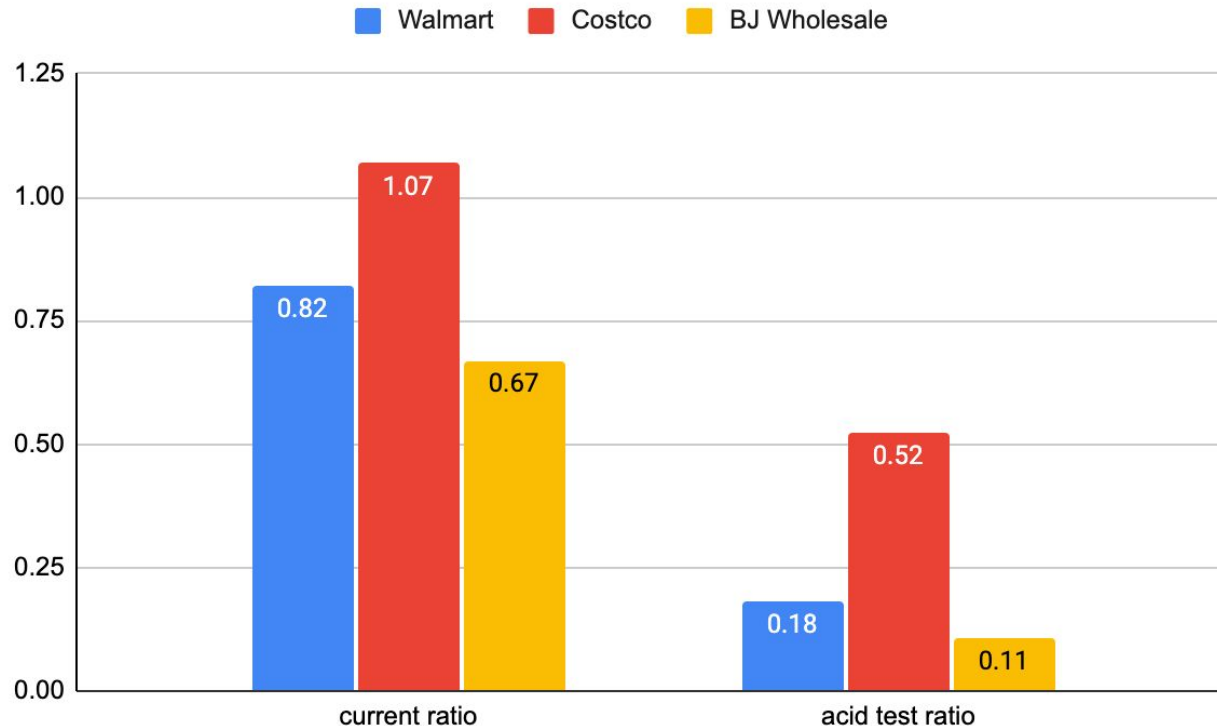
Breakdown	8/31/2023	8/31/2022
Operating Cash Flow	11,068,000	7,392,000
Investing Cash Flow	-4,972,000	-3,915,000
Financing Cash Flow	-2,614,000	-4,283,000
End Cash Position	13,700,000	10,203,000
Income Tax Paid Supplemental Data	-	1,940,000
Interest Paid Supplemental Data	-	145,000
Capital Expenditure	-4,323,000	-3,891,000
Issuance of Debt	917,000	0
Repayment of Debt	-1,301,000	-800,000
Repurchase of Capital Stock	-676,000	-439,000
Free Cash Flow	6,745,000	3,501,000

Costco demonstrated a positive operating cash flow, indicating healthy cash generation from its core operations.

Company and competitor's ratio with
explanation

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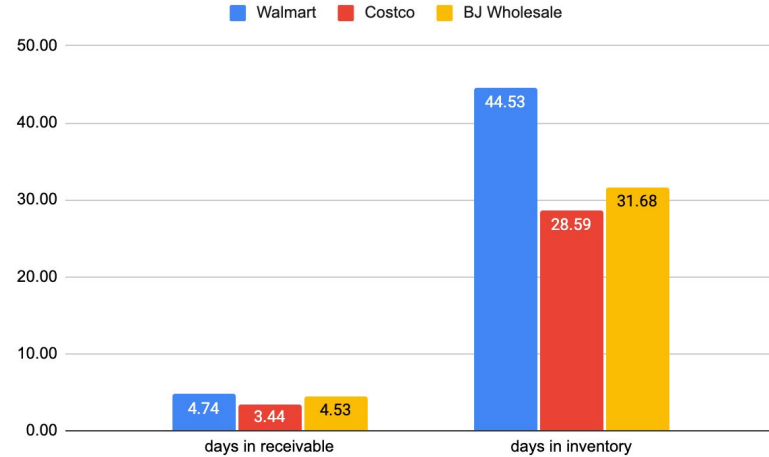
Firm Liquidity



Costco has \$1.07 in current assets for every \$1 in current liabilities compared with Walmart and BJ which has \$0.82 and \$0.62 in current assets for every \$1 in current liabilities.

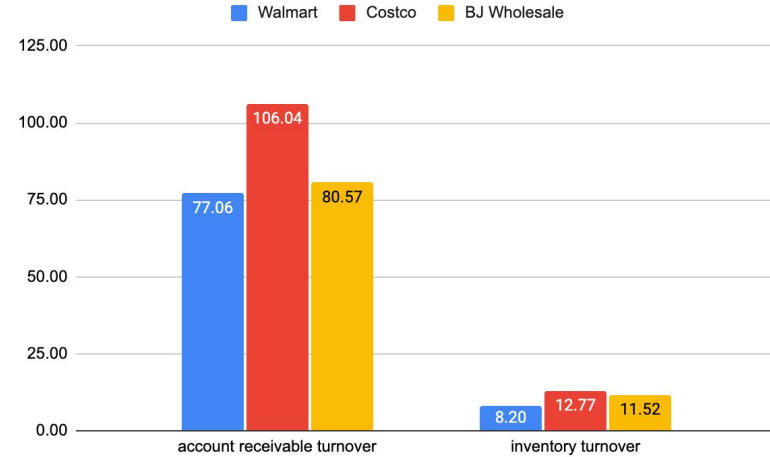
Costco has 52 cents in quick assets for every \$1 in current debt. While Walmart and BJ are 18 cents and 11 cents for every \$1 in current debt.

Firm Liquidity



Costco (at 3.44 days) is faster than Walmart (at 4.74 days) and BJ (at 4.53 days) in collecting accounts receivable.

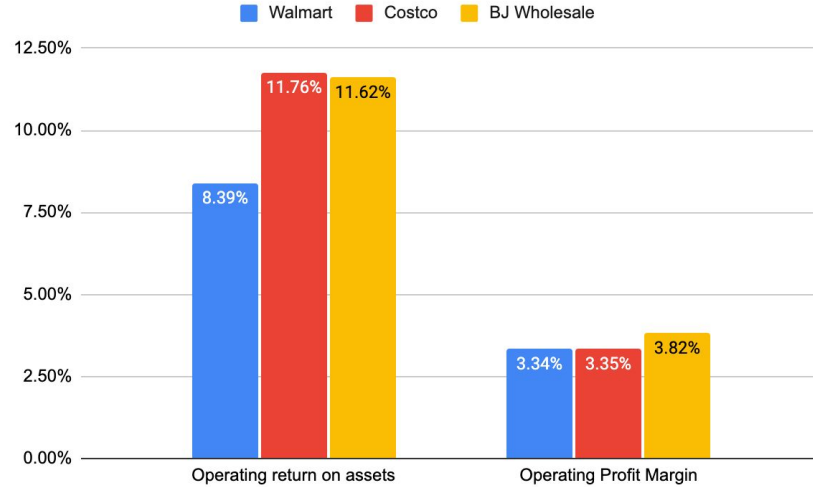
Costco carries inventory for a shorter time (28.89 days) compare to Walmart (44.53 days and BJ (31.68 days).



Costco (106.04X) is faster than BJ (80.57X) and Walmart (77.06X) in collecting accounts receivable.

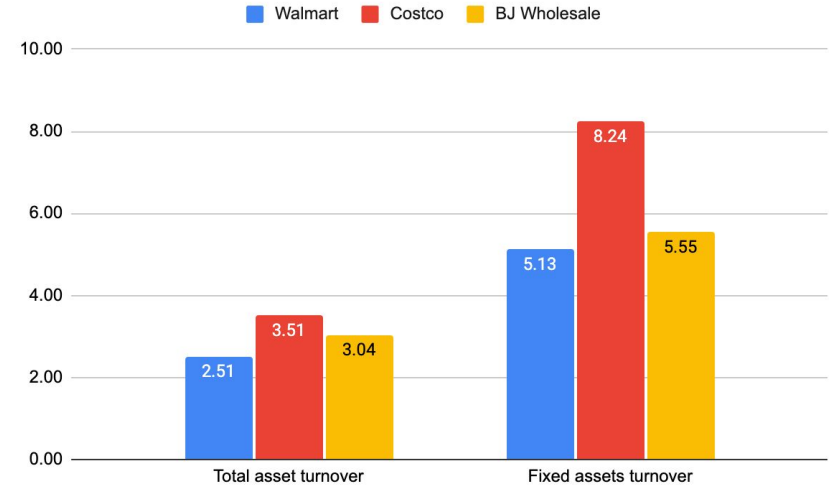
Costco moves inventory much quicker (12.77X) than BJ (11.52X) and Walmart (8.20X).

Operating Profitability



Costco managers are generating 11.76 cents of operating profit for every \$1 of assets, which is comparable with BJ (11.62).

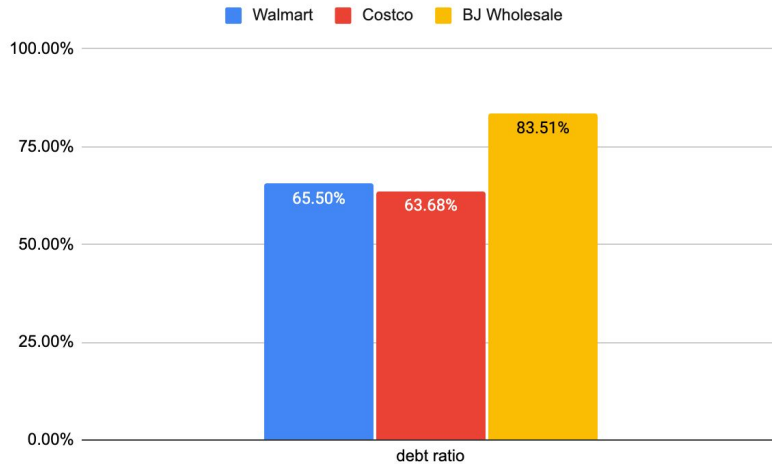
BJ managers are better than Costco and Walmart in managing the cost of goods sold and operating expenses.



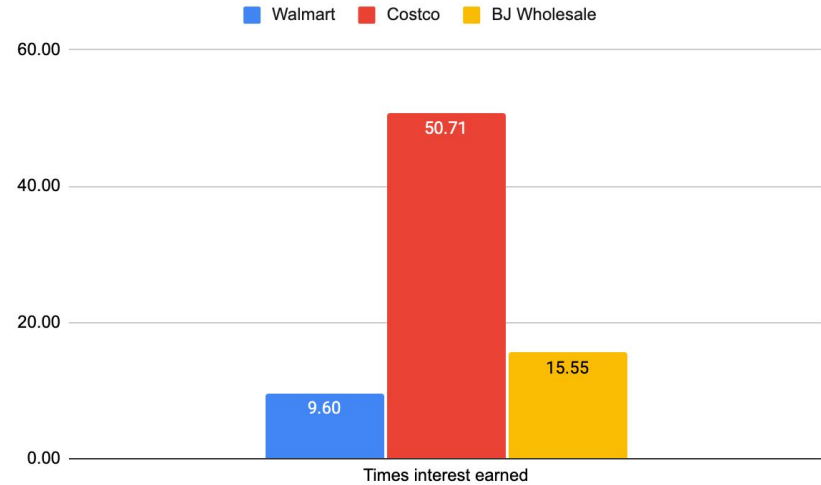
Costco is generating \$3.51 cents in sales for every \$1 invested in assets, which is higher than BJ (\$3.04) and Walmart (\$2.51).

Costco generates \$8.24 in sales for every \$1 invested in fixed assets, which is much higher than BJ (\$5.55) and Walmart (\$5.13).

Financing Decisions

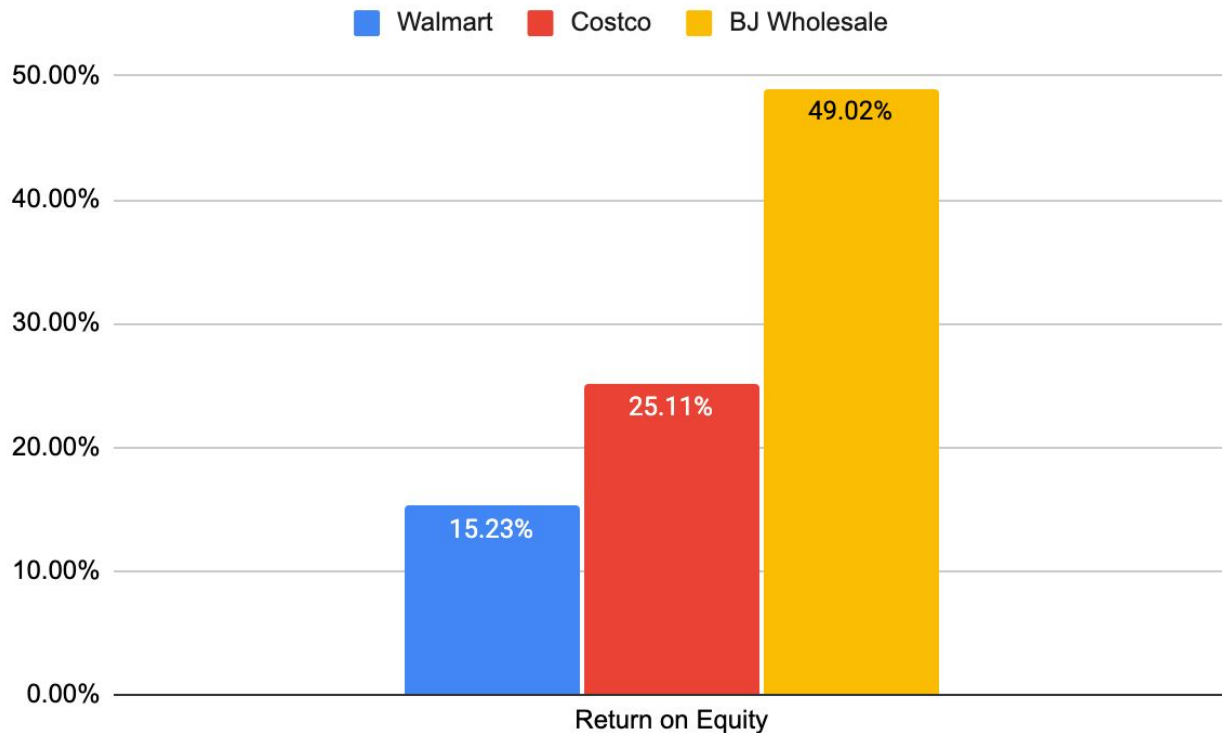


Costco finances 63.68% of its assets by debt and 36.32% by equity compared to Walmart financing 65.5% of its assets by debt and BJ financing 83.51% of its assets by debt.



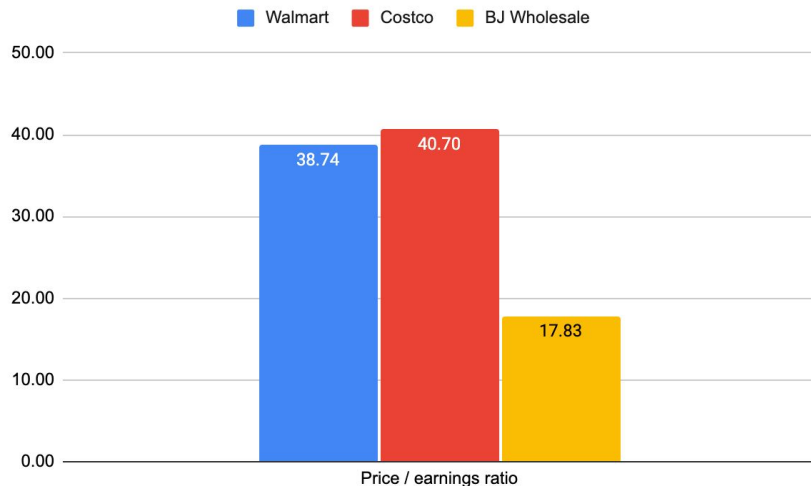
Costco's operating income is 50.71 times the annual interest expense and higher than both BJ (15.55X) and Walmart (8.60X) due to its relatively low interest expense.

Return on Equity

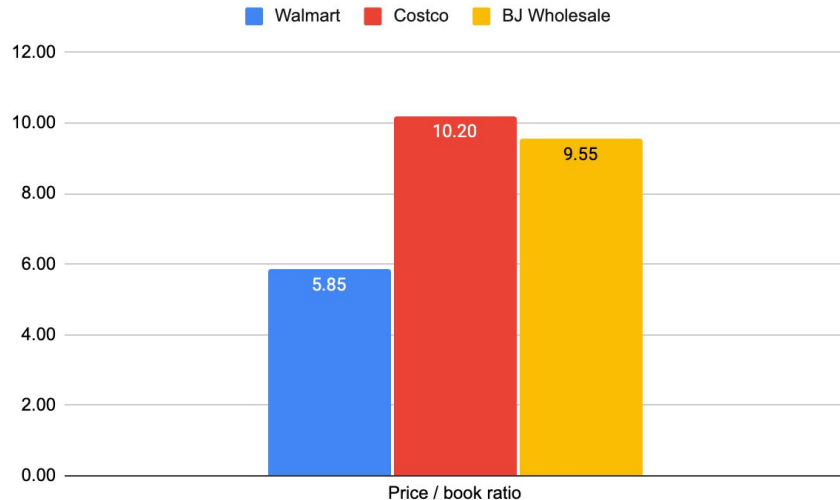


Owners of BJ are receiving a 49.02% return compared to Costco's 25.11% and Walmart's 15.23%.

Creating Shareholder Value



Investors are willing pay more for Costco (\$40.70) for every dollar of earnings per share compared to Walmart (\$38.74) and BJ (\$17.83).



A ratio greater than 1 indicates that the shares are more valuable than what the shareholders originally paid. The Costco ratio of 10.20X is higher than BJ's ratio of 9.55X and Walmart's ratio of 5.85X, suggesting that Costco is perceived as having better growth prospects relative to its risk.

Why  ?

	Date: Nov 12, 2023		
Company	COST		
	Original	Revised	Actual P/E
EPS	\$14.18	\$14.18	\$14.18
P/E	8.5	7	40.7
g	8.1	8.1	8.1
2g	2	1	1
Corp. Bond	4.4	4.4	4.4
AAA Bond Yield	5.61	5.61	5.61
Intrinsic Value	\$274.70	\$167.94	\$542.73
Current Price	\$577.12	\$577.12	\$577.12
BUY/SELL	SELL	SELL	SELL
Upside	-52%	-71%	-6%

Based on original and the revised formula of Graham Intrinsic Value, Costco intrinsic values are \$274.70 and \$167.94 respectively. As we calculated with the actual Costco P/E ratio, the intrinsic value is \$542.73 which is 6% higher than the current price \$577.12 (as of 12 November 2023)

DCF

Discounted Cash Flow (DCF) valuation is a method of estimating the current value of a company based on projected future cash flows adjusted for the time value of money.

Costco DCF Valuation - Growth Exit 5Y

Growth Exit - 5Y ▾

13.5 %
Upside

The Discounted Cash Flow (DCF) valuation of Costco Wholesale Corp (COST) is 748.04 USD. With the latest stock price at 658.82 USD, the upside of Costco Wholesale Corp based on DCF is 13.5%.

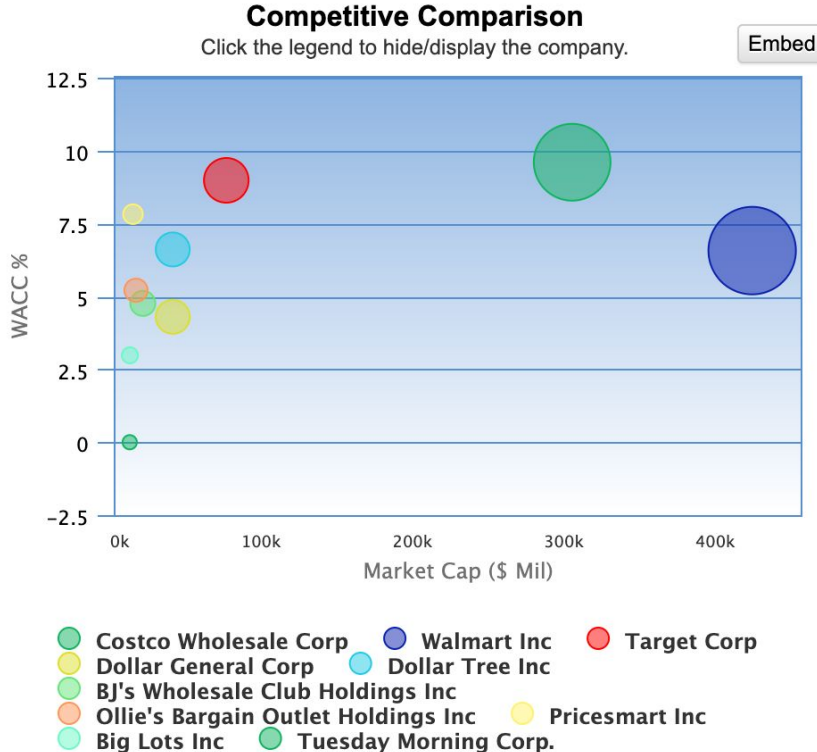
	Range	Selected
WACC / Discount Rate	6.9% - 8.9%	7.9%
Long-term Growth Rate	0.5% - 1.5%	1.0%
Fair Price	619.54 - 948.74	748.04
Upside	-6.0% - 44.0%	13.5%

658.82 USD
Stock Price

748.04 USD
Fair Price

WACC

The weighted average cost of capital (WACC) is the rate that a company is expected to pay on average to all its security holders to finance its assets.

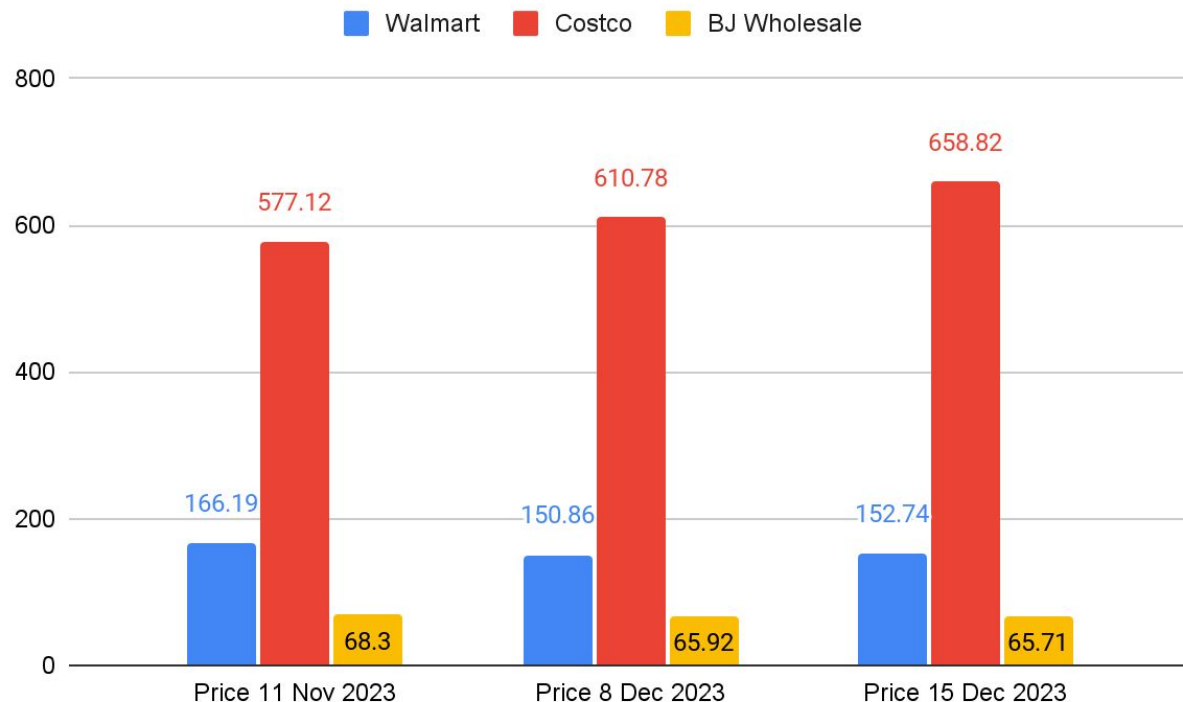


Competitive Comparison Data

Ticker	Company	Market Cap (M)	WACC %
COST	Costco Wholesale Corp	\$ 292,320.28	9.60
WMT	Walmart Inc	\$ 411,211.78	6.57
TGT	Target Corp	\$ 63,880.14	8.98
DG	Dollar General Corp	\$ 28,530.25	4.30
DLTR	Dollar Tree Inc	\$ 28,504.19	6.61
BJ	BJ's Wholesale Club Holdi...	\$ 8,764.47	4.76
OLLI	Ollie's Bargain Outlet Holdi...	\$ 4,235.02	5.21
PSMT	Pricesmart Inc	\$ 2,235.90	7.82
BIG	Big Lots Inc	\$ 205.10	2.98
TUESQ	Tuesday Morning Corp.	\$ 89.49	0.00

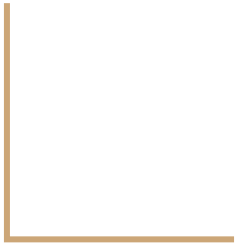
	Date: Nov 12, 2023		Date: Dec 8, 2023	
Company	COST			
	Original	Revised	Actual P/E	Actual P/E
EPS	\$14.18	\$14.18	\$14.18	\$14.18
P/E	8.5	7	40.7	40.7
g	8.1	8.1	8.1	8.1
2g	2	1	1	1
Corp. Bond	4.4	4.4	4.4	4.4
AAA Bond Yield	5.61	5.61	5.61	5.61
Intrinsic Value	5% increase in a month!		\$542.73	\$542.73
Current Price			\$577.12	\$610.78
BUY/SELL			SELL	SELL
Upside			-6%	-11%

Market price from 11 Nov - 15 Dec 2023



14.15% price
increase in 1
month's time

Conclusion



Before it's too late



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Thank You!

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