

Consolidated Statements Of Income - USD (\$), shares in Thousands, \$ in Millions

	Sep. 01, 2019	Aug. 30, 2020	Aug. 29, 2021
REVENUE			
Total revenue	\$152,703	\$166,761	\$195,929
OPERATING EXPENSES			
Merchandise costs	132,886	144,939	170,684
Selling, general and administrative	13,502	14,687	16,680
Depreciation & Amortization	1,492	1,645	1,781
Preopening expenses	86	55	76
Operating Income	4,737	5,435	6,708
OTHER INCOME (EXPENSE)			
Interest expense	-150	-160	-171
Interest income and other, net	178	92	143
INCOME BEFORE INCOME TAXES	4,765	5,367	6,680
Income Tax Expense (Benefit)	1,061	1,308	1,601
Net Income	3,704	4,059	5,079
Diluted (shares)	442,923	443,901	444,346
Merchandise Sales Revenue	149,351	163,220	192,052
Membership Fee Revenue	3,352	3,541	3,877

Consolidated Balance Sheets - USD (\$ in Millions)		Sep. 02, 2018	Sep. 01, 2019	Aug. 30, 2020	Aug. 29, 2021
CURRENT ASSETS					
Cash and cash equivalents		6,055	8,384	12,277	11,258
Short-term investments		1,204	1,060	1,028	917
Receivables, net		1,669	1,535	1,550	1,809
Merchandise inventories		11,040	11,395	12,242	14,215
Other current assets		321	1,111	1,023	1,312
Total current assets		20,289	23,485	28,120	29,505
OTHER ASSETS					
Property and Equipment, net		19,681	20,890	21,807	23,492
Operating lease right-of-use assets			0	2,788	2,890
Other long-term assets		860	1,025	2,841	3,381
TOTAL ASSETS		40,830	45,400	55,556	59,268
CURRENT LIABILITIES					
Accounts payable		11,237	11,679	14,172	16,278
Accrued salaries and benefits		2,994	3,176	3,605	4,090
Accrued member rewards		1,057	1,180	1,393	1,671
Deferred membership fees		1,624	1,711	3,851	2,942
Current portion of long-term debt		80	1,699	95	799
Other current liabilities		2,924	3,792	3,728	4,561
Total current liabilities		19,926	23,237	24,844	29,441
OTHER LIABILITIES					
Long-term debt, excluding current portion		6,487	5,124	7,514	6,692
Long-term operating lease liabilities			0	2,558	2,642
Other long-term liabilities		1,314	1,455	1,935	2,415
Total liabilities		27,727	29,816	36,851	41,190
EQUITY					
Preferred stock \$ 0.1 par value; 100,000,000 shares authorized; no shares issued and outstanding		0	0	0	0
Common Stock \$ 0.1 par value; 100,000,000 shares authorized; 441,825,000 and 441,255,000 shares issued and outstanding		4	4	4	4
Additional paid-in capital		6,107	6,417	6,698	7,031
Accumulated other comprehensive loss		-1,199	-1,436	-1,297	-1,137
Retained earnings		7,887	10,258	12,879	11,666
Total Costco stockholders' equity		12,799	15,243	18,284	17,564
Noncontrolling interests		104	341	421	514
Total equity		13,103	15,584	18,705	18,078
TOTAL LIABILITIES AND EQUITY		40,830	45,400	55,556	59,268

Consolidated Statements of Cash Flows - USD (\$ in Millions)	Sep. 01, 2019	Aug. 30, 2020	Aug. 29, 2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income including noncontrolling interests	3704	4059	5079
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:			
Depreciation and amortization	1492	1645	1781
Non-cash lease expense	0	194	286
Stock-based compensation	595	619	665
Other non-cash operating activities, net	9	42	85
Deferred income taxes	147	104	59
Changes in operating assets and liabilities:			
Merchandise inventories	-536	-791	-1802
Accounts payable	322	2261	1838
Other operating assets and liabilities, net	623	728	1057
Net Cash Provided by (Used in) Operating Activities	6356	8861	8958
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of short-term investments	-1094	-1626	-1331
Maturities and sales of short-term investments	1231	1678	1446
Additions to property and equipment	-2988	-2810	-3588
Acquisitions	0	-1163	0
Other investing activities, net	-4	30	62
Net Cash Provided by (Used in) Investing Activities	-2865	-3891	-3535
CASH FLOWS FROM FINANCING ACTIVITIES			
Change in bank payments outstanding	210	137	188
Proceeds from short-term borrowings	0	0	41
Proceeds from issuance of long-term debt	298	8962	0
Repayments of long-term debt	-89	-3200	-94
Tax withholdings on stock-based awards	-272	-330	-312
Repurchases of common stock	-247	-196	-406
Cash dividend payments	-1038	-1479	-5748
Other financing activities, net	9	-71	47
Net Cash Provided by (Used in) Financing Activities	-1147	-1147	-6488
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	-15	70	46
Net change in cash and cash equivalents	2329	3893	1019
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	6055	8384	12277
CASH AND CASH EQUIVALENTS END OF YEAR	8384	12277	11258
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid	141	124	149
Income taxes paid, net	1187	1052	1527
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Cash dividend declared, but not yet paid	286	0	0

Fixed Assets Schedule								
Fiscal Year	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Beginning PP&E	19,681	20,890	24,595	26,382	32,335	39,632	48,575	59,536
D&A	1,492	1,645	1,781	1,996	2,446	2,998	3,675	4,504
CapEx	2,701	5,350	3,568	3,957	4,850	5,945	7,286	8,930
Ending PP&E	20,890	24,595	26,382	32,335	39,632	48,575	59,536	72,971

Assumptions								
Fiscal Year	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
D&A as a % of Beginning PP&E	7.6%	7.9%	7.2%	7.6%	7.6%	7.6%	7.6%	7.6%
CapEx as a % of Beginning PP&E	13.7%	25.6%	14.5%	15.0%	15.0%	15.0%	15.0%	15.0%

Formulas

Beginning PP&E = Ending PP&E of previous year

D&A = Beginning PP&E for the estimated year * D&A as a % of Beginning PP&E for the estimated year

CapEx = Beginning PP&E for the estimated year * CapEx as a % of Beginning PP&E for the estimated year

Ending PP&E Projection = Beginning PP&E - D&A + CapEx for the estimated year

Unlevered Free Cash Flow (mm)								
Fiscal Year	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Revenue	152,703	166,761	195,929	215,522	237,074	258,411	276,500	290,324
COGS	132,886	144,939	170,684	187,541	206,296	224,862	240,602	252,633
Gross Profit	19,817	21,822	25,245	27,981	30,779	33,549	35,897	37,692
Operating Expenses								
Selling, General, Administrative	13,588	14,742	16,756	18,887	20,776	22,646	24,231	25,443
Total Operating Expenses	13,588	14,742	16,756	18,887	20,776	22,646	24,231	25,443
EBITDA	6,229	7,080	8,489	9,093	10,003	10,903	11,666	12,249
Depreciation & Amortization	1,492	1,645	1,781	1,996	2,446	2,998	3,675	4,504
Operating Profit (EBIT)	4,737	5,435	6,708	7,097	7,556	7,904	7,991	7,745
Operating Taxes	1,061	1,308	1,601	1,490	1,587	1,660	1,678	1,626
NOPAT (Net Operating Profit After Taxes)	3,676	4,127	5,107	5,607	5,969	6,244	6,313	6,119
(+) Depreciation & Amortization	1,492	1,645	1,781	1,996	2,446	2,998	3,675	4,504
(-) Capital Expenditures	2,701	5,350	3,568	3,957	4,850	5,945	7,286	8,930
(-) Change in NWC	(691)	(2,437)	(1,378)	(244)	(1,156)	(1,144)	(970)	(741)
NWC	(7,497)	(9,934)	(11,312)	(11,556)	(12,712)	(13,856)	(14,826)	(15,567)
Unlevered Free Cash Flow	3,158	2,859	4,698	3,889	4,721	4,442	3,672	2,433

Assumptions								
Fiscal Year	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Revenue Growth		9.2%	17.5%	10.0%	10.0%	9.0%	7.0%	5.0%
COGS % of Revenue	87.0%	86.9%	87.1%	87.0%	87.0%	87.0%	87.0%	87.0%
SG&A % of Revenue	8.9%	8.8%	8.6%	8.8%	8.8%	8.8%	8.8%	8.8%
Tax % of EBIT	22.4%	24.1%	23.9%	21.0%	21.0%	21.0%	21.0%	21.0%
Current Assets	14,041	14,815	17,330	19,467	21,414	23,341	24,975	26,224
Current Liabilities	21,538	24,749	28,642	31,023	34,126	37,197	39,801	41,791

Formulas

Revenue Projection = Previous Years Revenue *(1+ Growth rate Projection for the estimated year)

COGS Projection = Current Year's Revenue * COGS Percentage of Revenue for the estimated year

Gross Profit = Revenue for the estimated year - COGS for the estimated year

Selling, General, Administrative = Current Year's Revenue * Selling, General, Administrative Percentage of Revenue for the estimated year

Total Operating Expenses = Selling, General, Administrative for the estimated year +Other operating Expenses for the estimated year

EBITDA = Gross profit - Total operating Expenses

Depreciation & Amortization Projection = D&A Projected for the estimated year using Fixed Assets Schedule

Operating Profit (EBIT) = EBITDA - Depreciation & Amortization for the estimated year

Operating Taxes = EBIT * Tax rate (Tax % of EBIT)

NOPAT (Net Operating Profit After Taxes) = Operating Profit (EBIT) - Operating Taxes

Capital Expenditures = CapEx Projected for the estimated year using the Fixed Assets Schedule

NWC(Net Working Capital) = Current Assets - Current Liabilities

Change in NWC = Current years NWC - Previous years NWC

Unlevered Free Cash Flow = NOPAT + D&A -Capex - Change in NWC

Weighted Average Cost of Capital (WACC)	
Equity (mm) (E)	214,560.00
Debt (mm) (D)	7,491.00
Tax Rate (Tc)	21.0%
Cost of Debt(Rd)	2.3%
Cost of Equity (Re)	6.4%
Total value (V=E+D)	222,051.00
After Tax Cost of Debt	1.8%
Equity Value (E/V)	0.9662645068
Debt Value (D/V)	0.0337354932
WACC	6.2%

Formulas

After tax cost of debt = Cost of Debt*(1-Tax Rate)

WACC = Equity Value*Cost of equity + Debt Value*After tax Cost of Debt

Unlevered Free Cash Flow (mm)								
Fiscal Year	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Unlevered Free Cash Flow	3,158	2,859	4,698	3,889	4,721	4,442	3,672	2,433
Projection Year				1	2	3	4	5
Present Value of Free Cash Flow				3,661	4,183	3,704	2,881	1,797

Implied Share Price Calculation	
Sum of PV of FCF	19,158
Growth Rate	3%
WACC	6.2%
Terminal Value	77,228
PV of Terminal Value	57,046
Enterprise Value	76,203
(+) Cash	11,258
(-) Debt	7,491
(-) Minority Interest	514
Equity Value	79,456

Formulas

Unlevered Free Cash Flow = Unlevered Free Cash Flow Projection from the Free cash flow projections
Present Value of Free Cash Flow = Unlevered Free Cash Flow of the estimated year / (1 + WACC)^Projection Year
Terminal Value = Unlevered free cash flow of the final year forecast * (1 + Growth Rate) / (WACC - Growth Rate)
PV of Terminal Value = Terminal Value / (1+WACC)^ Number of Year projected till
Sum of PV of FCF = SUM of all the present value of Free cash flows
Enterprise Value = PV of Terminal Value + Sum of PV of FCF
Cash = Recent year's cash and cash equivalents value
Debt = Current Debt of the Company
Minority Interest = Recent year's Non Controlling interests
Equity Value = Enterprise Value + Cash - Debt - Minority Interest

Questions

Refer to the various given data to find insights in this data and answer the following question

What factors can affect the composition of a company's current assets vs. long-term assets?

Ans: Current assets are assets that are expected to be converted into cash within a year (e.g., cash, accounts receivable, inventory), while long-term assets are assets that will provide value over multiple years (e.g., property, equipment, investments).

many factors can affect the company's mix of short term to long term assets,

1) **Industry type**: retail businesses might have more current assets than long term assets, while other company focusing on intellectual property, patents might have more intangible long term assets as well.

2) **Growth stage of company**: early stage of growth may focus on more current assets.

3) **Liquidity**: companies focused on liquidity and cash flow optimization will have more current assets than long term assets

How can a company's debt-to-equity ratio impact its creditworthiness and access to capital?

Ans: Debt-to-equity ratio (D/E) measures the proportion of debt relative to shareholders' equity in a company's capital structure. It reflects the company's leverage. It affects creditworthiness and access to capital

A **higher D/E ratio** may indicate **higher risk**, making creditors and investors cautious, potentially leading to **increased interest rates or difficulty obtaining loans**.

A **lower D/E ratio** often implies a more conservative financing approach, which might **improve access to cheaper capital**.

A balanced D/E ratio can provide credibility to lenders, demonstrating the company's ability to manage debt responsibly.

However, too little debt might indicate underutilization of growth opportunities.

Debt-to-Equity Ratio: How has the debt-to-equity ratio changed over the four years?

(take in consideration total liabilities and total equity) Is the company relying more on debt financing or equity financing?

Ans: The D/E Ratio has been increasing (3.35 for 2018, 1.97 for 2020, 2.28 for 2021), as per 2022 the company is 2.28 leveraged to its equity.

Additionally, when considering the cost of debt (2.32%) compared to the cost of equity (6-40%), it becomes evident that the company finds debt financing more attractive. The lower cost of debt makes it a

cheaper source of capital, which likely incentivizes the company to rely more on debt rather than equity for funding.

Given that the D/E ratio calculation includes total liabilities as debt, it is clear that the company prefers debt financing over equity financing. However, while leveraging debt can be beneficial due to lower costs,

the company should carefully monitor this trend to ensure that the increasing debt levels do not negatively impact its financial stability or risk profile in the long term.

Revenue Growth: How has the company total revenue grown over the three years? What segments are driving this growth (merchandise sales, membership fees)?

Ans: The company has grown its revenue at 9.2 % and 17.49% for years YOI growth 2020 and 2021.

this is a healthy growth, out of the (merchandise sales, membership fees) merchandise sales are driving the revenue and is also a major part of revenue mix of the company

Gross Margin: Calculate and compare the gross margin (consider total revenue and total expense) across the three years. Is the company able to maintain or improve its margins?

Ans: Yes, the company has been able to maintain its gross margin at 13% over the last three years.

This is a positive sign, as the margin has not decreased, which indicates the company has successfully managed its costs relative to its revenue.

However, while maintaining the margin is healthy, it is important for the company to focus on improving this margin in the future.

Increasing the gross margin would allow the company to enhance profitability, strengthen financial stability, and possibly reinvest in growth areas.

This could be achieved through cost reduction strategies, improving operational efficiency, or optimizing pricing for its products and services.

By focusing on these areas, the company could further bolster its financial performance and remain competitive in the market

How can investors utilize free cash flow analysis to compare different companies in the same industry?

Ans: Free cash flow (FCF) is the cash available to a company after it has met its capital expenditures. It's calculated as:

FCF=Operating Cash Flow-Capital Expenditures

Investors use FCF to evaluate a company's financial flexibility, ability to pay dividends, repurchase shares, or invest in growth.

Comparing companies:

Companies with **higher FCF** can be seen as **better investments** because they are more likely to reinvest in growth or return capital to shareholders.

Investors also look at FCF yield, which compares FCF to market capitalization. **Higher FCF yield** indicates **better value** for investors.

When comparing companies in the same industry, consistency in generating FCF over time and how it's reinvested is crucial.

Debt-Equity Ratio Analysis				
Fiscal Year	2018A	2019A	2020A	2021A
Total Liabilities	27,727	29,816	36,851	41,190
Total Equity	13,103	15,584	18,705	18,078
D-E Ratio	2.12	1.91	1.97	2.28

Cost of Debt	2.30%
Cost of Equity	6.40%

Revenue Growth Analysis			
Fiscal Year	2019A	2020A	2021A
Revenue	152,703	166,761	195,929
(1) Merchandise Sales Revenue	149,351	163,220	192,052
(2) Membership Fee Revenue	3,352	3,541	3,877
% Revenue Growth		9.21%	17.49%

Gross Margin Analysis			
Fiscal Year	2019A	2020A	2021A
Revenue	152,703	166,761	195,929
COGS	132,886	144,939	170,684
Gross Margin	12.98%	13.09%	12.88%