Costco Analysis

Savannah Brown, Kevin Robinson,
Kiki Robinson-Milloy, Antonio Terrell

Agenda

- Company Overview and Benchmark
- Key Insights and Findings
- Risks and Challenges
- Recommendations
- Conclusion

Costco Overview

“Simplifying Home and Life.”

Business Model

- Low Price Strategy
- Zero-Risk Membership
- Membership Reward Program

Revenue Segments

- Membership Fees
- Foods & Sundries
- Non-Food items
- Fresh Foods
- Ancillary Products and Services

Key Statistics

- Costco has 848 warehouses total worldwide.
- Costco generates $222.7 billion of revenue annually.
- Costco is the sixth-largest retailer in the world and the third-biggest in the US, behind Walmart and Amazon.

SWOT Analysis

Strengths

- Offers lowest possible prices
- Good Operating structure

Weaknesses

- Membership only policy
- Capacity of inventory

Opportunities

- Expansion to more markets
- Diversification

Threats

- Competition

Company Benchmark

Industry Averages
Industry numbers and Costco numbers highlight a strong benchmark

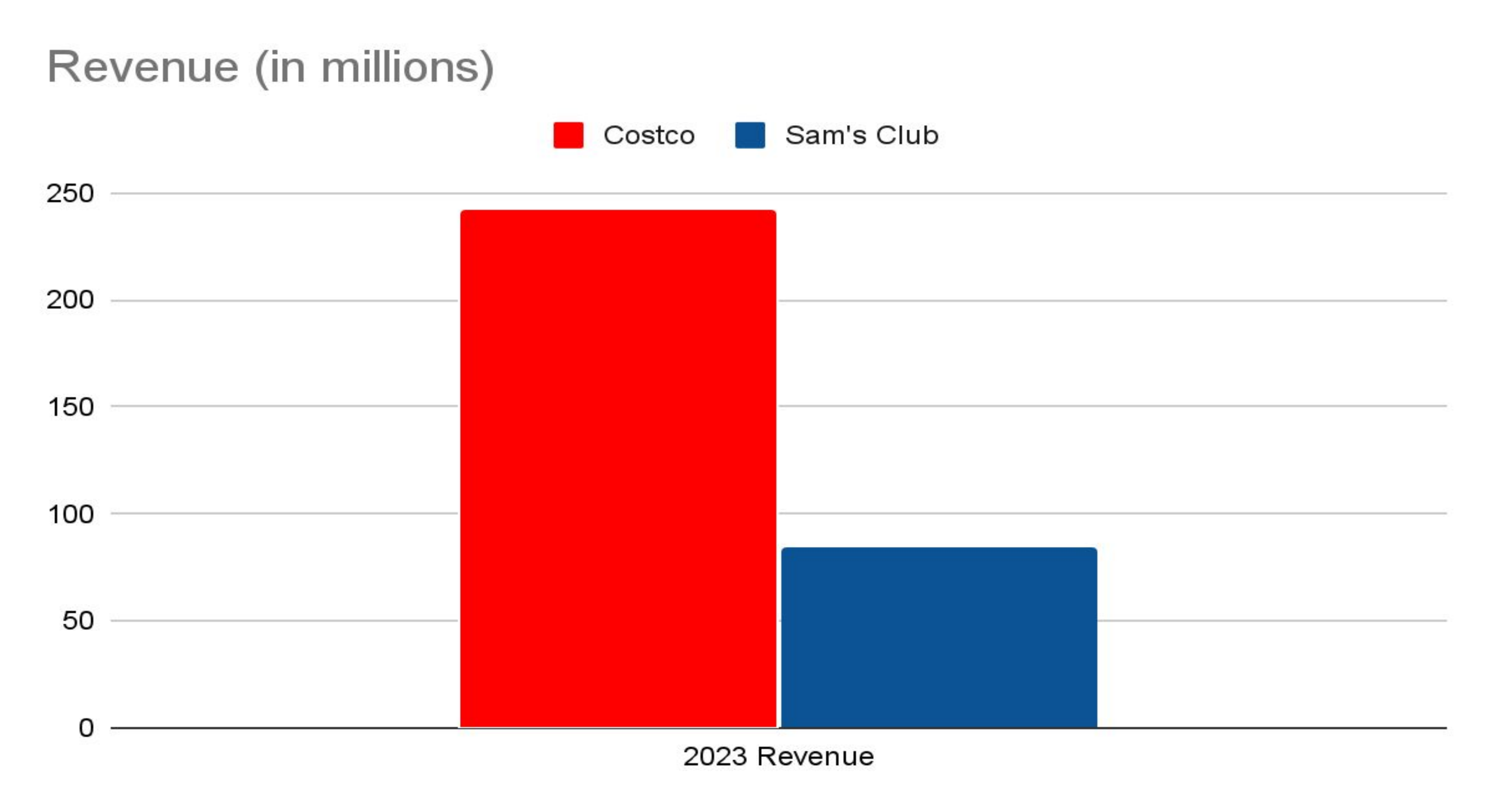
Closest Peers
Peers operate in the same or very similar retail segments

Company Insights
Give a good visual on Costco’s strengths and weaknesses

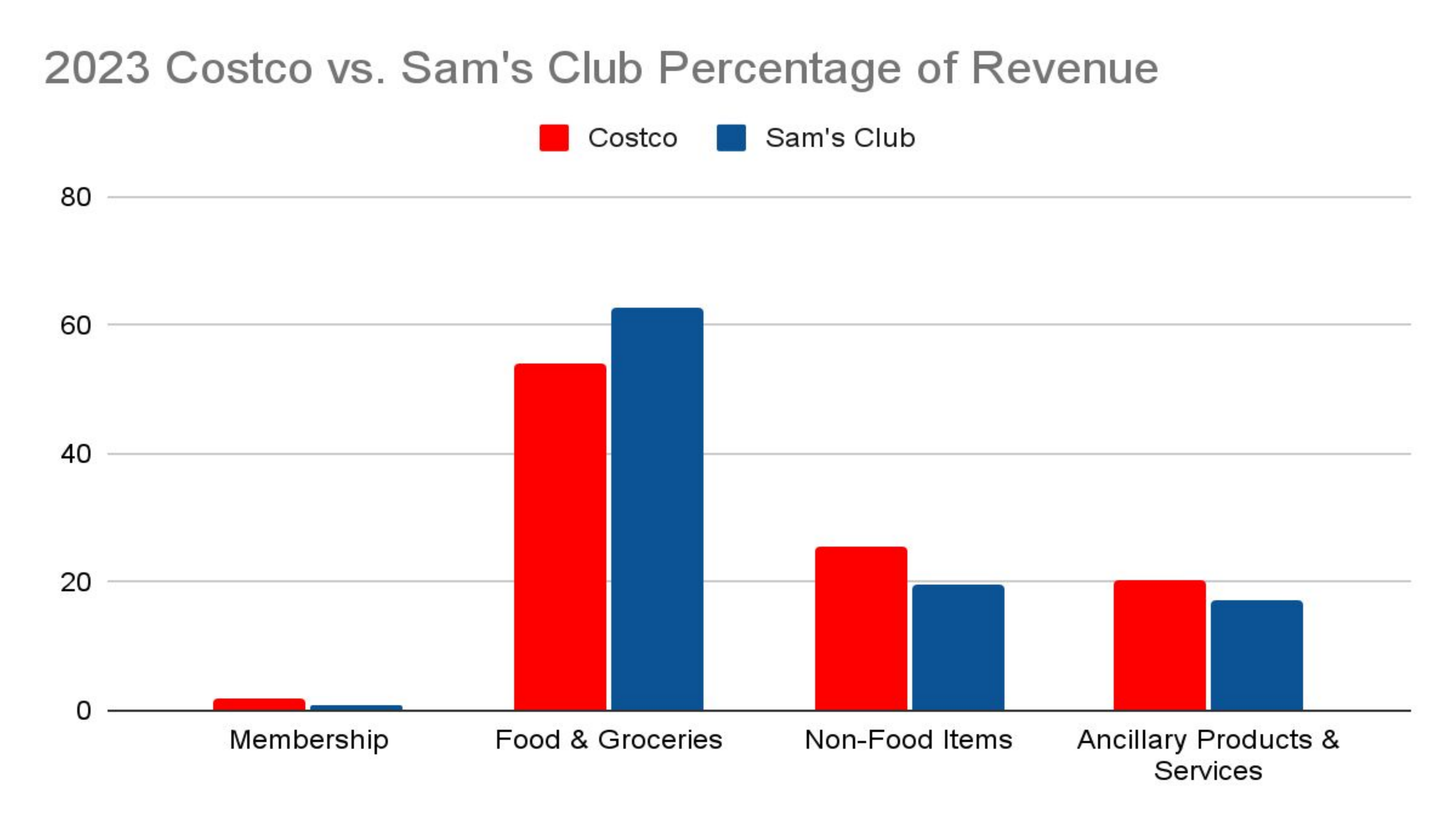
Perspective
Analysis gave a broad perspective on the industry compared to costco

Closest Competitor
Although Walmart is the closest competitor, Costco is best compared to Sam’s Club

Comparison


Revenue (in millions)
Costco
Sam's Club
250
200
150
100
50
0
2023 Revenue

Comparison



2023 Costco vs. Sam's Club Percentage of Revenue
Costco
Sam's Club
80
60
40
20
0
Membership
Food & Groceries
Non-Food Items
Ancillary Products & Services

Costco and Walmart Comparison

Comparison of Costco’s closest peer through profitability and performance.

Company	Business Model	Growth Profit Margin	Operating Profit Margin	Profit Margin	ROA	ROE
Walmart	Low prices with high quality products while having cost efficient operations	25.93%	3.83%	2.40%	6.15%	18.50%
Industry Average		27.5%	2.6%	2%	4.9%	14.8%
Costco	Saving money due to bulk purchases and memberships; everything is low cost	12.42%	3.51%	2.6%	7.98%	27.53%

CostCo Key Findings & Insights

YOY Performance (10 Year)

- Ratio Analysis
  - Margin Analysis
  - Conservative Debt
- Trends & Variations
  - Revenue Growth
  - Gross Margin
  - Operating Margin

8.88% CAGR

Peer Analysis (WMT & Industry)

Company	Cash Ratio	Inventory Turnover	Asset Turnover	Cash to Cash	Interest Coverage
Walmart	.40	8.90	2.60	4.10	10.30
Industry Average	.20	6.12	1.82	5.61	13.56
Costco	.45	12.64	3.51	2.00	50.71

Strategy Alignment & Sustainable Growth

Potential Risks & Challenges

- Competition from Walmart and Target
  - Walmart and Target offer a wide range of products, often at competitive prices.. Aggressive pricing strategies, loyalty programs, or promotional discounts by competitors could erode Costco's market share and impact its profit margins.
- Dependency on Membership Model
  - Costco's revenue model is heavily dependent on membership fees. Factors such as reduced customer satisfaction, lack of innovation, or competition could lead to membership attrition.
- E-Commerce and Digital Transformation Challenges
  - Lags behind Walmart and Amazon in e-commerce capabilities. The shift in consumer behavior towards online shopping requires continuous investment in digital infrastructure, fulfillment centers, and delivery services.

Potential Risks & Challenges

- Pricing Pressures
  - Rising costs for goods, transportation, and wages can put pressure on profit margins. Any significant increase in inflation, tariffs, or raw material costs could force Costco to raise prices, potentially affecting its value proposition and customer loyalty.
- Foreign Exchange and Geopolitical Risks
  - Costco operates in several countries outside the U.S., which exposes it to foreign exchange risks and geopolitical instability. Political changes or trade barriers could also impact Costco's supply chain and international operations.
- Real Estate and Expansion Risks
  - Costco's growth strategy involves opening new warehouse locations. If new stores underperform due to poor location selection, shifting demographics, or local competition, it could result in sunk costs and a lower return on investment.

Final Recommendations

Improve Marketing for Online Shopping

Increase the awareness of the different shopping options available

Broaden Online Pickup Options

Work to make every product available in store able to be picked up

Introduce Monthly Memberships

Attract new customers while keeping the exclusivity of memberships

Conclusion

- Mass merchant operating in a variety of segments
- Robust financial performance with low margins and high inventory turnover
- High inventory turnover and low days inventory outstanding shows effective inventory management
- Biggest challenge is falling behind competitors because of their business model
- Suggest enhancing customer experience

Thank You for Your Time

Questions?

Appendix:

- Key Drivers Background
- Cost Driver Impact on Competitive Advantage
- Comparable Analysis
- Cost Co Trend Analysis (Part 1)
- Cost Co Trend Analysis (Part 2)
- Cost Co Trend Analysis (Part 3)

Drivers

- Revenue
  - Pricing Strategy (Margin Control & product Mix), Volume (Q), Availability (which bridges the gap to the operational impact which impacts customer satisfaction and retention
- COGS
  - Raw Materials (EOS, Negotiation Power & rates w/suppliers), Direct Labor, Inventory Management), more upstream with bridging the gap between production, DSI, Process Efficiency
- SG&A
  - Salaries & Wages (Head Count, over time has slowly decreased. Are they managing their overhead better?
- CapEx
  - Economic Lifecycle & Strategy, Investments (new infrastructure), maintenance & repair (Impact on OpEx, utilization and throughput, upgrades existing machinery (compatibility w/technology and rising trends)

Cost Drivers Impact on Competitive Advantage

Impact on competitive advantage from an geographic standpoint

- Market Share
- Cost Management
- OpEx
- Asset Utilization

Overall Positioning and Profitability

Cross Ratio Comparison (Part 1)

1. Liquidity	Cost Co Advantage	*Walmart*	*Industry Average*
Current Ratio	*1.07*	*0.80*	*1.27*
Quick Ratio	*0.57*	*0.20*	*0.24*
Cash Ratio	*0.45*	*0.40*	*0.20*
2. Efficiency (Asset Management)	**CostCo Wholesale**	**Walmart**	***Industry Average***
Total Asset Turnover	*3.51*	*2.60*	*1.82*
Fixed Asset Turnover	*7.32*	*5.20*	*3.51*
Inventory Turnover	*12.64*	*8.90*	*6.12*
Days Inventory Outstanding (Held)	*28.87*	*41.00*	*77.68*
Days Sales Outstanding (Collection Period)	*3.44*	*4.60*	*6.64*
Days Payables Outstanding	*30.31*	*41.50*	*39.52*
Cash Conversion Cycle	*2.00*	*4.10*	*5.61*

Cross Ratio Comparison (Part 2)

3. Solvency (Debt Management)	CostCo Wholesale	Walmart	*Industry Average*
Total Liabilities to Assets		*64.30*	*67.84*
Total Debt to Equity	*42.00*	*67.50*	
Long-term Debt to Equity	*36.00*	*59.90*	
Interest Coverage (Times Interest Earned)	*50.71*	*10.30*	*13.56*
4. Profitability/Performance	**CostCo Wholesale**	**Walmart**	***Industry Average***
Gross Profit Margin	*13.12%*	*24.60%*	*29.37%*
Operating Profit Margin	*3.35%*	*4.30%*	*4.74%*
Profit Margin	*2.60%*	*2.30%*	*2.43%*
ROA	*9.12%*	*7.00%*	*4.91%*
ROE	*25.11%*	*18.50%*	*33.16%*

Cross Ratio Comparison (Part 3)

5. Market Value	CostCo Wholesale	Walmart	*Industry Average*
Market Capitalization (Equity Market Value)	***$ 243,217.34***	***$ 611,952.80***	***$ 119,960***
P/E	*$ 38.66*	*$ 39.60*	*$ 25.95*
Price/Cash Flow	*$ 21.97*		*$ 14.62*
Market/Book	*9.71*	*7.20*	*12.46*
Enterprise Value (Value of Operations)	***$ 238,519.34***	***$ 670,795.80***	***$ 138,450***
Enterprise Value/Revenue	*0.98*	*1.00*	*4.91*
Enterprise Value/EBIT	*29.40*	*23.50*	*27.90*
Enterprise Value/EBITDA	*23.40*	*15.10*	*14.20*

Cost Co Wholesale YOY Trend Analysis (Part 1)

1. Liquidity	Fiscal Year	2014 -9	2015 -8	2016 -7	2017 -6	2018 -5	2019 -4	2020 -3	2021 -2	2022 -1	2023 0	Historical Average	Drop Min and Max	Most Recent	Trend Analysis
Current Ratio		1.22	1.05	0.98	0.99	1.02	1.01	1.13	1.00	1.02	1.07	1.05	1.04	1.07	
Quick Ratio		0.63	0.51	0.40	0.43	0.46	0.52	0.64	0.52	0.46	0.57	0.51	0.51	0.57	
Cash Ratio		0.51	0.39	0.30	0.33	0.36	0.41	0.54	0.41	0.35	0.45	0.40	0.40	0.45	

2. Efficiency (Asset Management)	Fiscal Year Year	2014 -9	2015 -8	2016 -7	2017 -6	2018 -5	2019 -4	2020 -3	2021 -2	2022 -1	2023 0	Historical Average	Drop Min and Max	Most Recent	Trend Analysis
Total Asset Turnover		3.41	3.47	3.58	3.55	3.47	3.36	3.00	3.31	3.54	3.51	3.42	3.45	3.51	
Fixed Asset Turnover		7.30	7.20	6.62	6.78	6.89	6.97	6.08	6.58	7.21	7.32	6.89	6.94	7.32	
Inventory Turnover		11.52	11.22	11.33	11.24	11.02	11.53	11.70	11.88	11.03	12.64	11.51	11.43	12.64	
Days Inventory Outstanding (Held)		31.68	32.53	32.21	32.46	33.11	31.65	31.21	30.72	33.10	28.87	31.75	31.95	28.87	
Days Sales Outstanding (Collection Period)		3.72	3.84	3.85	4.05	4.30	3.67	3.39	3.36	3.60	3.44	3.72	3.70	3.44	
Days Payables Outstanding		31.81	32.91	27.33	31.72	33.70	32.44	36.13	35.18	32.99	30.31	32.45	32.63	30.31	
Cash Conversion Cycle		3.59	3.47	8.72	4.80	3.71	2.88	(1.53)	(1.10)	3.71	2.00	3.03	2.88	2.00	

Cost Co Wholesale YOY Trend Analysis (Part 2)

3. Solvency (Debt Management)	Fiscal Year Year	2014 -9	2015 -8	2016 -7	2017 -6	2018 -5	2019 -4	2020 -3	2021 -2	2022 -1	2023 0	*Historical Average*	*Drop Min and Max*	*Most Recent*	*Trend Analysis*
Total Debt to Assets		0.16	0.19	0.17	0.19	0.17	0.16	0.20	0.19	0.17	0.15	*0.18*	*0.18*	*0.15*	
Total Debt to Equity		0.43	0.61	0.46	0.65	0.54	0.48	0.61	0.65	0.53	0.42	*0.54*	*0.54*	*0.42*	
Long-term Debt to Assets		0.16	0.15	0.13	0.19	0.17	0.12	0.19	0.17	0.16	0.13	*0.16*	*0.16*	*0.13*	
Long-term Debt to Equity		0.43	0.49	0.37	0.64	0.54	0.36	0.59	0.59	0.50	0.36	*0.49*	*0.48*	*0.36*	
Interest Coverage (Times Interest Earned)		28.50	29.23	27.61	30.30	28.18	32.40	37.12	42.24	49.32	50.71	*35.56*	*34.66*	*50.71*	

4. Profitability/Performance	Fiscal Year Year	2014 -9	2015 -8	2016 -7	2017 -6	2018 -5	2019 -4	2020 -3	2021 -2	2022 -1	2023 0	*Historical Average*	*Drop Min and Max*	*Most Recent*	*Trend Analysis*
Gross Profit Margin		13.50%	13.99%	14.38%	14.31%	14.03%	13.95%	14.14%	13.79%	12.99%	13.12%	*13.82%*	*13.85%*	*13.12%*	
Operating Profit Margin		2.86%	3.12%	3.09%	3.15%	3.16%	3.18%	3.56%	3.69%	3.43%	3.35%	*3.26%*	*3.26%*	*3.35%*	
Profit Margin		1.83%	2.05%	1.98%	2.08%	2.21%	2.40%	2.40%	2.56%	2.57%	2.60%	*2.27%*	*2.28%*	*2.60%*	
ROA		6.23%	7.11%	7.09%	7.37%	7.68%	8.06%	7.20%	8.45%	9.11%	9.12%	*7.74%*	*7.76%*	*9.12%*	
ROE		16.73%	22.39%	19.46%	24.86%	24.49%	24.00%	21.89%	28.51%	28.31%	25.11%	*23.57%*	*23.81%*	*25.11%*	
Dupont ROE:		16.73%	22.39%	19.46%	24.86%	24.49%	24.00%	21.89%	28.51%	28.31%	25.11%	*23.57%*	*23.81%*	*25.11%*	
Total Asset Turnover		3.41	3.47	3.58	3.55	3.47	3.36	3.00	3.31	3.54	3.51	*3.42*	*3.45*	*3.51*	
Profit Margin		1.83%	2.05%	1.98%	2.08%	2.21%	2.40%	2.40%	2.56%	2.57%	2.60%	*2.27%*	*2.28%*	*2.60%*	
Equity Multiplier		2.68	3.15	2.75	3.37	3.19	2.98	3.04	3.37	3.11	2.75	*3.04*	*3.04*	*2.75*	

Cost Co Wholesale YOY Trend Analysis (Part 3)

	Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Historical	Drop	Most	Trend Analysis
5. Market Value	Year	-9	-8	-7	-6	-5	-4	-3	-2	-1	0	Average	Min and Max	Recent	
Market Capitalization (Equity Market Value)		***52,995***	***61,335***	***70,918***	***68,527***	***102,155***	***129,584***	***153,407***	***201,247***	***231,115***	***243,217***	***131,450***	***127,286***	***243,217***	
Dividend Yield		1.10%	4.67%	1.05%	5.70%	0.67%	0.80%	0.96%	2.86%	0.65%	0.51%	*1.90%*	*1.60%*	*0.51%*	
P/E		$ 25.75	$ 25.80	$ 30.18	$ 25.58	$ 32.60	$ 35.42	$ 38.33	$ 40.19	$ 39.55	$ 38.66	*$ 33.21*	*$ 33.28*	*$ 38.66*	
Price/Cash Flow		$ 13.30	$ 14.31	$ 21.54	$ 10.19	$ 17.69	$ 20.39	$ 17.31	$ 22.47	$ 31.27	$ 21.97	*$ 19.04*	*$ 18.62*	*$ 21.97*	
Market/Book		4.31	5.78	5.87	6.36	7.98	8.50	8.39	11.46	11.20	9.71	*7.95*	*7.97*	*9.71*	
Enterprise Value (Value of Operations)		***51,178***	***61,585***	***71,977***	***70,088***	***102,174***	***127,725***	***151,609***	***200,993***	***230,977***	***238,519***	***130,683***	***127,141***	***238,519***	
Enterprise Value/Revenue		0.45	0.53	0.61	0.54	0.72	0.84	0.91	1.03	1.02	0.98	*0.76*	*0.77*	*0.98*	
Enterprise Value/EBIT		15.89	16.99	19.60	17.26	22.81	26.28	25.53	27.83	29.64	29.40	*23.12*	*23.21*	*29.40*	
Enterprise Value/EBITDA		12.04	12.96	14.61	12.91	17.27	20.11	19.99	22.32	23.83	23.40	*17.94*	*17.95*	*23.40*	

	Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Historical	Drop	Most	Trend Analysis
6. Market Value Capital Structure Wei	Year	-9	-8	-7	-6	-5	-4	-3	-2	-1	0	Average	Min and Max	Recent	
Wd		-11.08%	-11.74%	-8.47%	-11.45%	-7.33%	-5.92%	-7.79%	-6.01%	-4.95%	-4.53%	*-7.93%*	*-7.87%*	*-4.53%*	
We		90.93%	90.49%	92.76%	90.69%	93.61%	94.71%	93.26%	94.64%	95.49%	95.85%	*93.24%*	*93.26%*	*95.85%*	