Analyzing W. Craig Jelinek Pay & Costco Company Performance

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Enjoy!

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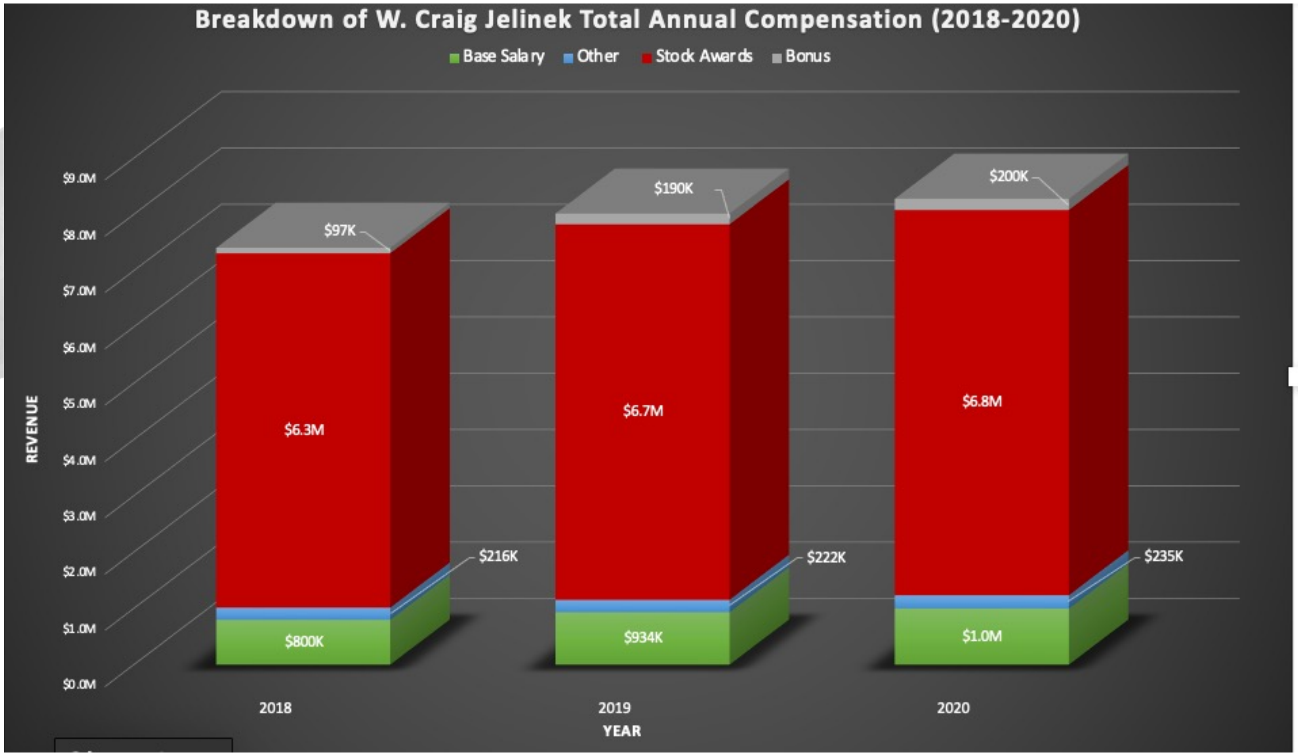
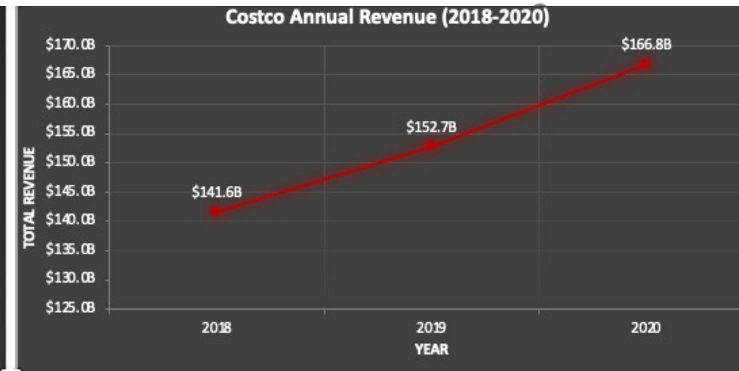
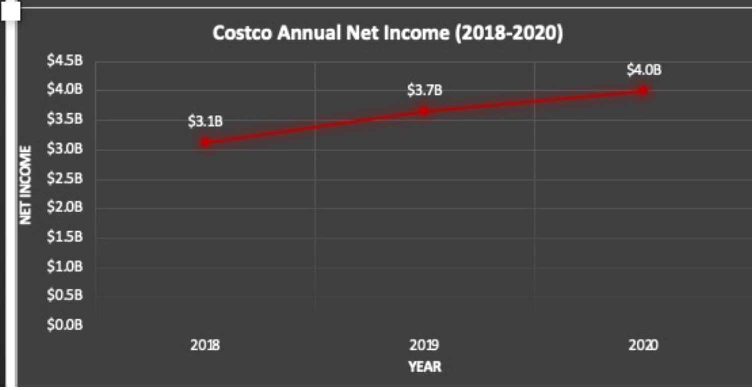
COSTCO WHOLESALE

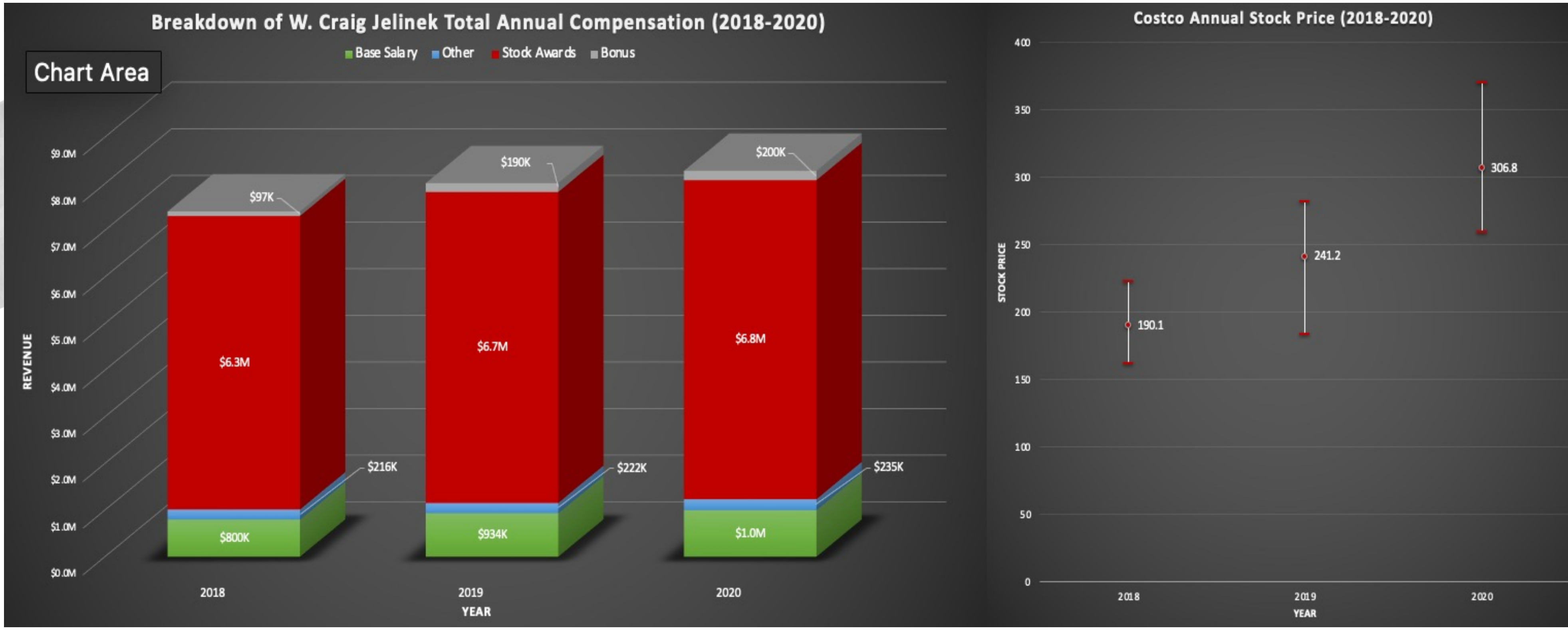






- I determined Jelinek's annual pay based on four primary factors: base salary, stock awards, bonuses, and other incentives which included changes in pension value and nonqualified deferred earnings. Overall, Jelinek's pay increased by 8.2% in 2018, along with another 3.3% following 2019. Furthermore, each factor experienced an increase across each year.

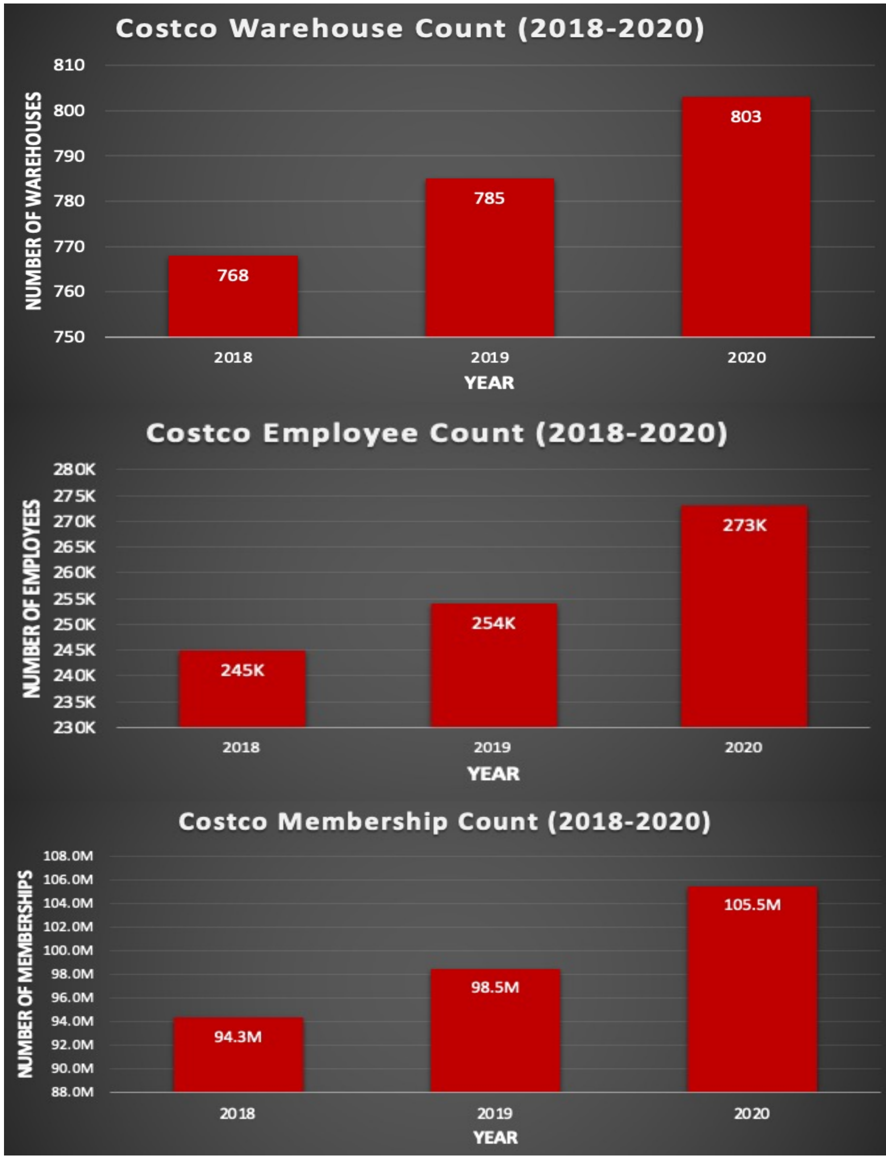
- Next, I determined if there was an apparent relationship between Jelinek's increase in annual pay and Costco's (CST) financial performance across the same timeframe. **Measures of revenue and net income (adjusting for expenses) also increased across each year, highlighting a point that Jelinek's pay level increased due to CST's ability to consistently generate profit from revenue, thereby reflecting strong performance.**



- It is also important to note that stock awards comprised the majority of Jelinek's pay across each year, which are provided by corporations as a way to reward executives based on **company performance**, as the company's value increases with rising stock prices (2).

- To the right, we see that CST's stock price increased over time, thereby demonstrating points of strong financial growth and performance, which also simultaneously instills confidence in investors and shareholders to rely on them long-term.

- **This increase in stock price can also be inferred as a company goal being met, which is reflected in the increase in Jelinek's stock awards each year.**



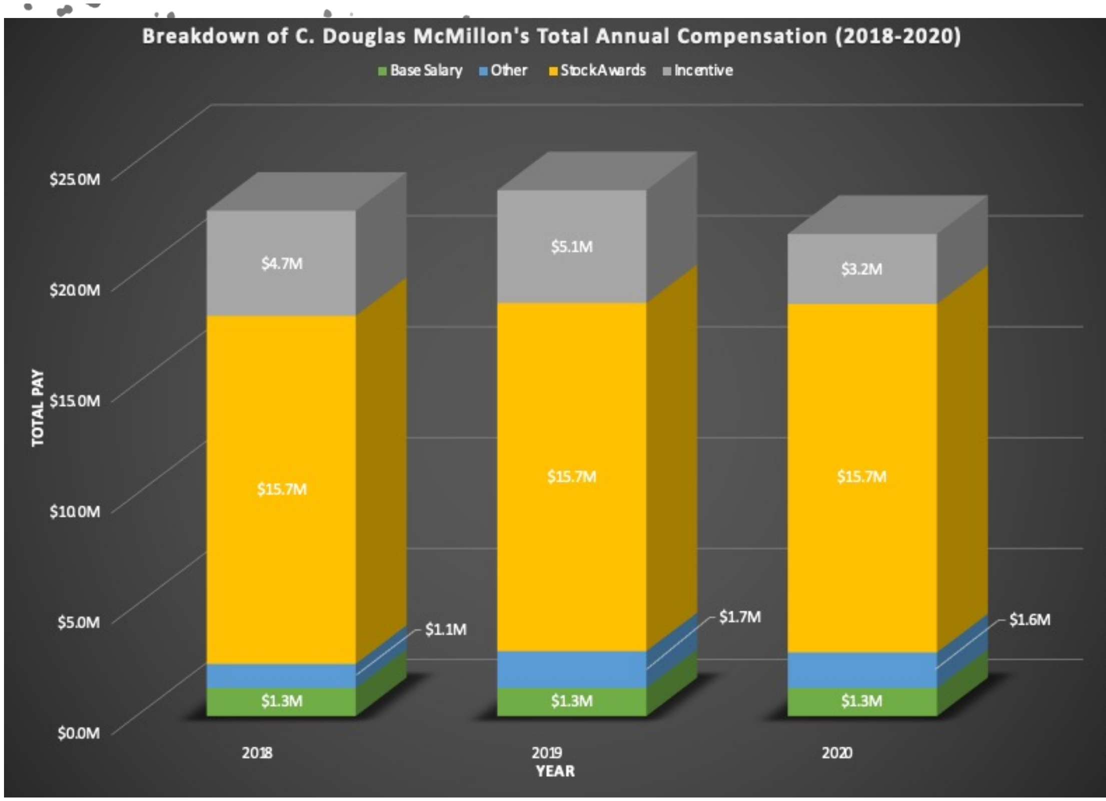
- In addition to financial gains, some specific growth metrics that I utilized to measure performance include warehouse, employee, and membership growth.

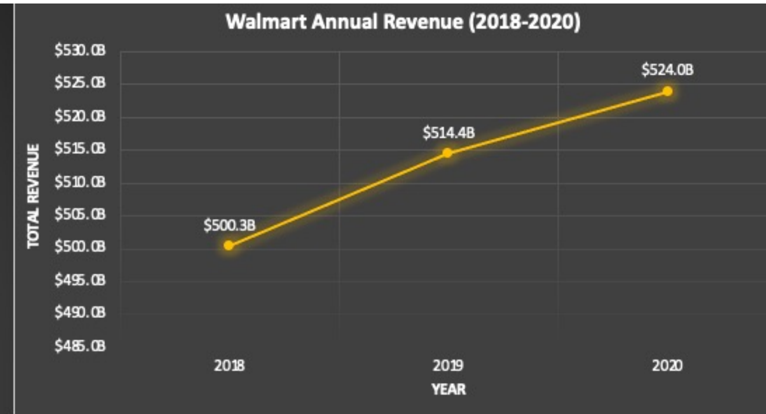
- Increased revenue translated to more warehouses being built each year, which contributes to a wider customer base and more sales.
- There were increases in employee count each year, which showcases employee satisfaction and retention rates, along with a desire to contribute to higher productivity and innovation.
- Finally, there were increases in registered memberships each year, which further confirms customer satisfaction as well.

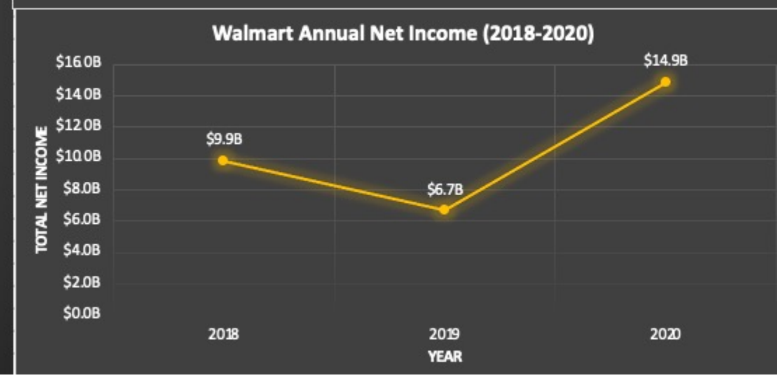
- **Each of these terms showcases CST's ability to expand while remaining profitable, thereby highlighting strong performance.**

How can competition from other retailers be analyzed within the relationship between CEO pay and company performance?

Walmart vs COSTCO WHOLESALE

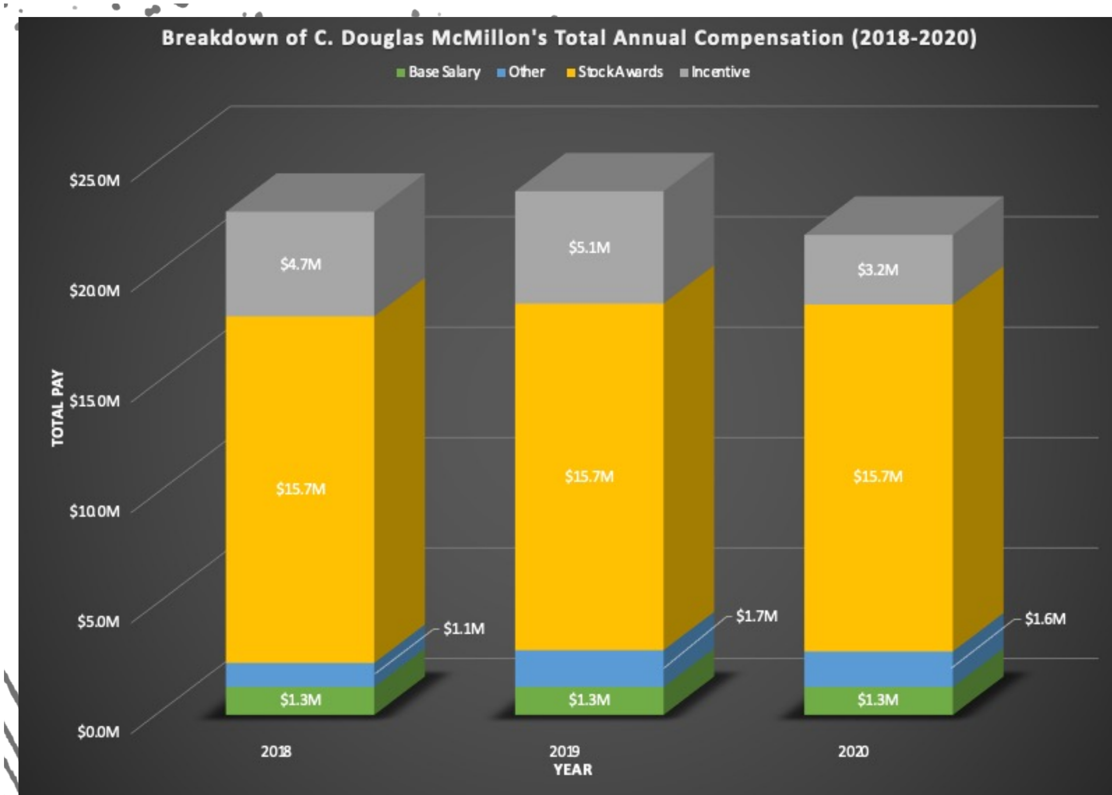


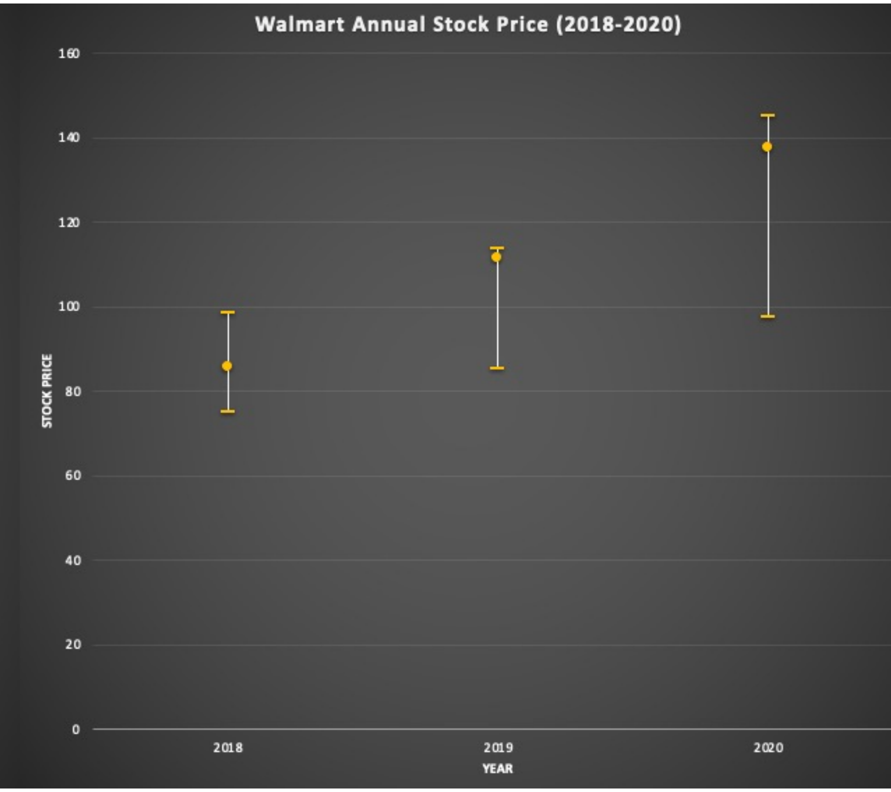




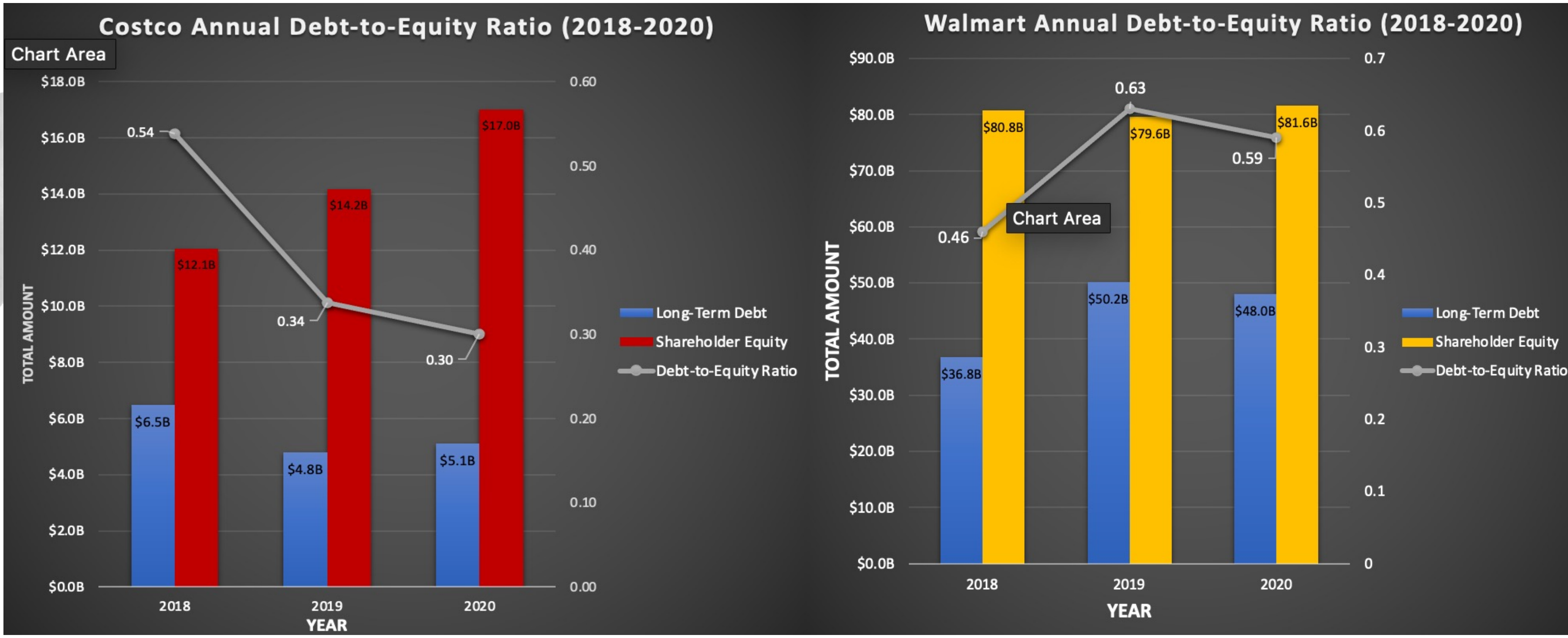
- Generally, McMillon's annual pay was higher across all factors compared to that of Jelinek's. However, the annual trends of each factor are different. For instance, while Jelinek possessed an increase in each factor of his compensation every year, McMillon possessed stagnant (Stock Awards, Base Salary) and fluctuating amounts (Incentives, Other) within the same timeframe. Due to these trends, there's an overall fluctuation in his total pay between 2018 to 2020.

- **This apparent difference in annual pay trend could possibly be correlated with a difference in company performance. WMT's annual revenue and net income are higher than that of CST. In addition, WMT also experienced a steady growth of annual revenue. However, a key difference is the WMT's trend of net income, which has fluctuated over the past three years, signifying a setback in financial performance compared to CST.**





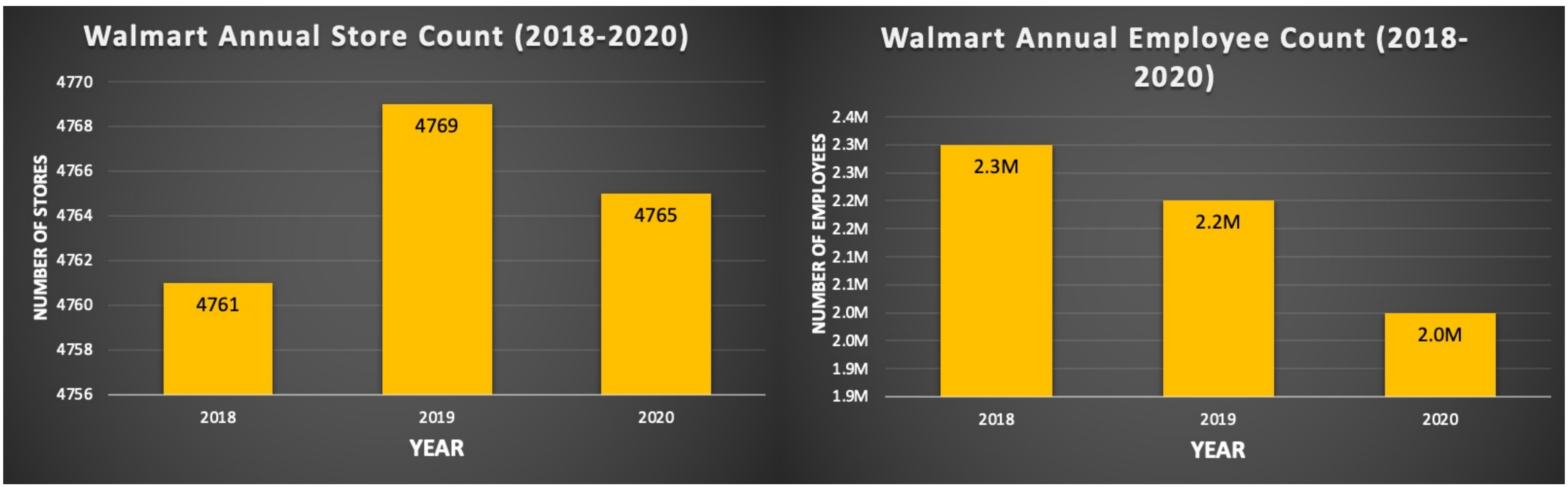
- Stock awards also comprise a majority of McMillon's pay, but, as previously stated, it has remained stagnant over the 3-year timeframe compared to CST.
- On the right, WMT's stock price also experienced a steady increase in stock price, but it is important to note that these prices are lower compared to that of CST's. This can be inferred as a sign that investors and shareholders aren't as confident in relying on WMT to perform well long-term compared to CST, thereby reflecting a lack of investor interest.
- **While I previously stated that increasing stock prices could translate to a company's annual goal being met, these lower stock prices compared to their main competitor, CST, could be an alternative reason as to why McMillon didn't experience any increases in stock awards over the 3-year timeframe.**



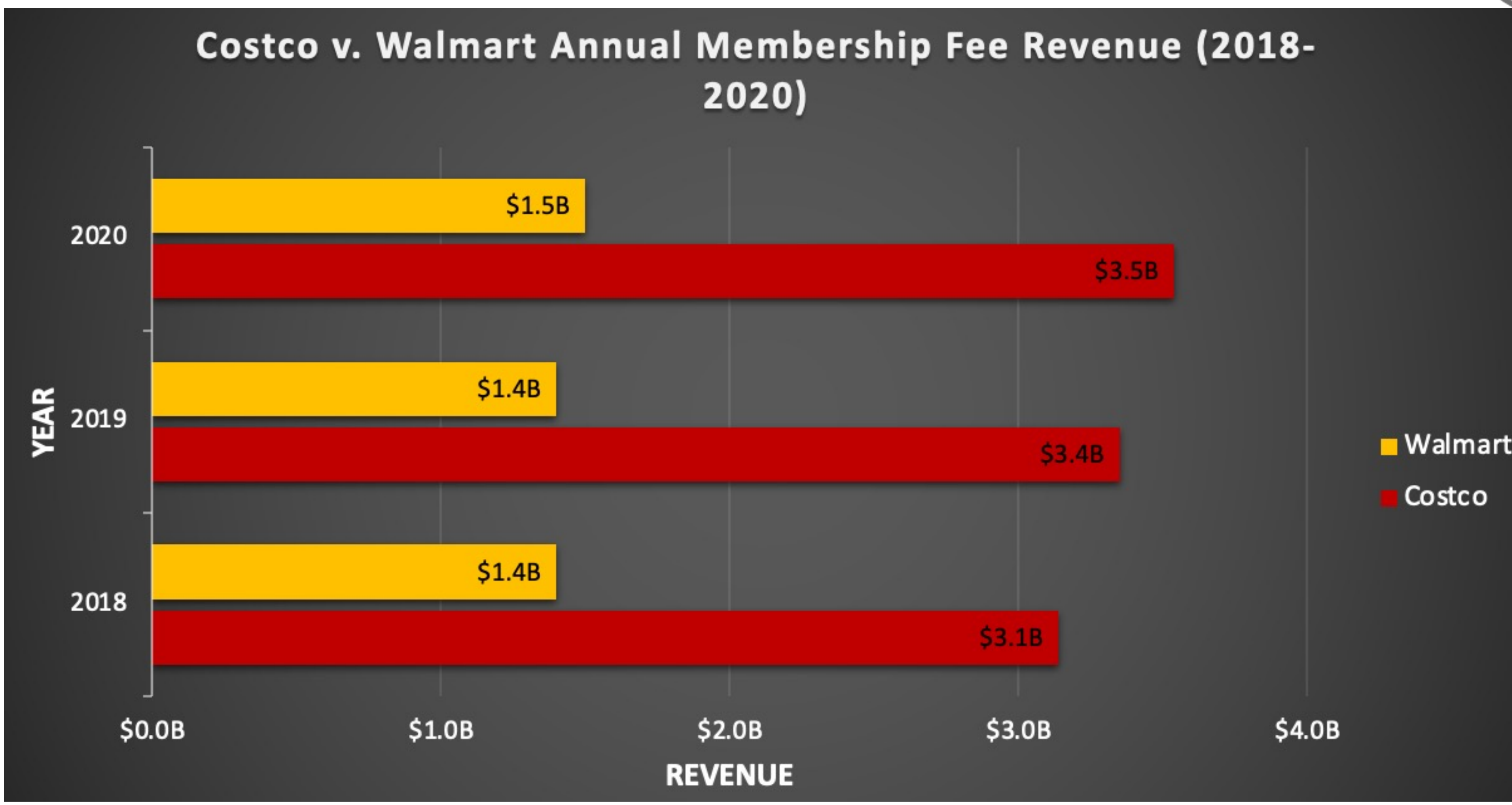
- Another important factor to consider when evaluating company performance is solvency, which refers to a company's ability to meet its long-term financial obligations, which was briefly introduced when discussing stock prices. This primarily includes handling all liabilities and relying on the company's own acquired capital to finance its operations over borrowed funds.
- The debt-to-equity (D/E) ratio, a common metric used to assess a company's solvency, compares a company's total liabilities (in this case, debt) to its shareholders' equity.
- On the one hand, CST showcases relatively decreased amounts of debt over time and increases in equity, thereby reflecting a lower D/E ratio. On the other hand, their competitor, WMT, showcases increased amounts of debt and stagnant equity amounts, thereby reflecting a higher D/E ratio.

- **From this visualization, it can be inferred that CST is performing better than WMT on a long-term basis due to their heightened ability to generate enough cash flow to cover their debt payments and operational expenses.**

- I’ve also included other specific growth metrics for WMT such as store and employee growth.
- Compared to CST, store and employee count across each year are significantly higher, which matches the similar trends seen in the previous financial metrics utilized. However, once again, there are fluctuating trends with store count, while an opposite, decreasing trend occurs with employee count across each year.
- **These evident differences compared to CST may be translated to a reduction in company growth, along with lower employee satisfaction with WMT, signifying a setback in overall company performance.**



- Finally, it was difficult to determine WMT membership count due to the lack of online information regarding WMT+ members. So, I decided to reflect on how much profit from membership fees accounts for the total revenue of each company.
- Despite WMT possessing an overall higher revenue than that of CST, the graph indicates that they profit more from their membership fees than WMT. In addition, this higher profit steadily increases over the 3-year timeframe, while WMT's remains stagnant. **This can be deduced to higher rates of customer satisfaction for CST, as more are willing to sign up for their membership, which could be related to successful company goal being accomplished.**



Conclusions

- I worked to establish a potential proportional relationship between CEO pay and a company's performance, whereas the more financial and operational goals accomplished, the more that is reflected through an increase of a CEO's pay.

- I determined four factors to make a CEO's compensation: base salary, stock awards, bonuses/incentives, and other potential benefits. In addition, I primarily determined a company's performance based on their annual trends in financial growth and profitability, and how they maintain this profitability amidst any liabilities over a long period. This in turn affects their ability to expand their business and attract more employees and customers, which I also took into account.

- Furthermore, competition from other companies within the same industry may also affect performance, as it may drive companies to innovate and adapt to novel business models to offer better services, thereby benefitting the company and executives being rewarded for their decisions.

- Through these defined terms, I conclude this presentation with the inference that CST is performing better than WMT on a long-term basis, which is why Jelinek's annual pay increased compared to McMillon's.

Important Considerations

- Stock prices should not be solely tied to the financial performance of a company, as several external factors may influence how it moves, such as overall market conditions, retail industry trends, etc.

- CST and WMT target different audiences. CST looks for members who want to make bulk purchases, while WMT tends to offer everyday essentials at lower prices, which explains why their business is significantly larger than that of CST.

- WMT's fluctuations in net income, despite their large revenue, and high debt liabilities could be attributed to their heavy investments in advertising, promotions, and the use of e-commerce to drive product sales.

- In spite of these differences, it is evident that CST has discovered a model that is more suitable for consumers to return as frequent shoppers, thereby leading to strong company performance and increases in CEO pay.

Questions?

Thank you for your time!

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