



Costco Wholesale Corporation

Stock Up On Costco

Costco continues to demonstrate resilient growth despite an uncertain environment and economy, supported by its strong membership renewal and consistent sales growth. **We initiate with a BUY rating for \$COST and a one-year PT of \$1,072.**

Thesis Point 1: Resilient Membership Revenue

The membership fee is a stable and high-margin revenue stream that acts as a solid foundation for the entire business. Membership fees represent a significant portion of net income (despite being only around 2% of overall revenue), with consistent and predictable profit. Customer loyalty continues to remain high, with a renewal rate of nearly 93% in the US and Canada in 2024. This loyalty is a huge strength, reducing the need for advertising and finding new customers, and Costco spends almost no money on traditional advertising. The membership price also slowly rises over time, with an 8% increase in 2024, which steadily increases income growth over time to keep up with the changes in the market.

Thesis Point 2: Sustainable Competitive Advantages

Costco's advantages in the market allow it to consistently outperform its direct competitors and maintain its pricing power, contributing to long-term income growth. A big element of income is its high-quality private label brand *Kirkland Signature*, representing around 30% of total sales. Because it's a private label brand, Costco can completely control its supply chain and offer products at a significantly lower price than well-known alternatives. The focus of the business on lower prices and buying in bulk brings an advantage against traditional grocery stores, especially in times of high inflation or economic uncertainty. This pulls more cost-sensitive customers and keeps sales strong regardless of how the economy is performing.

Thesis Point 3: Future Global and Digital Expansion

Costco has always had goals of growth, whether it be through global markets or digital ones. It is planning to continuously open new warehouses, with a significant focus on international markets. In 2025 it opened 27 new warehouses, a third of which were international, and in 2024 it opened 30. International Net sales grew 8% in 2025 and 9% the two years prior. E-commerce sales have also been growing consistently, despite only currently representing 5% of overall revenue. The online growth strategy continues to leverage its low product prices online, maintaining and attracting new customers in favor of the digital options.

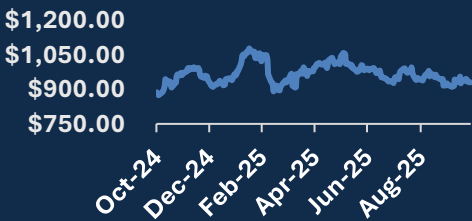
Company Overview

Known across the world for its low prices and large quantities, Costco operates 914 warehouses across 4 continents, based on the concept that offering members low prices on a limited selection of products in various categories will produce high sales volumes and rapid inventory turnover. Its DTC membership model provides a stable and recurring revenue stream and combines with operating efficiencies from volume purchasing and efficient distribution to operate at significantly lower margins than retail competitors like Kroger and Amazon. Costco's higher-cost "Executive" membership represented 73.3% of worldwide net sales in 2024, despite only making up 40-50% of the membership population. Costco's main competitive advantage lies in its ability to leverage operational efficiency and brand recognition to deliver unbeatable value to its customers.

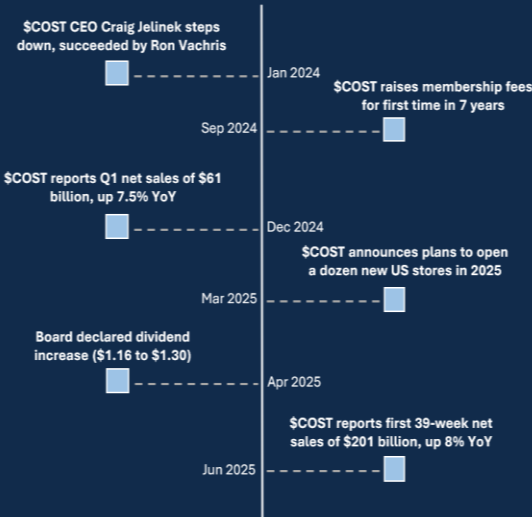


| | |
|-----------------|-----------------------|
| TICKER: | \$COST |
| RATING: | BUY |
| PRICE: | \$927.64 |
| PRICE TARGET: | \$1,072 |
| MARKET CAP: | \$418.6b |
| 52-W RANGE: | \$867.34 - \$1,078.23 |
| P/E: | 52.6x |
| IMPLIED UPSIDE: | 15.5% |

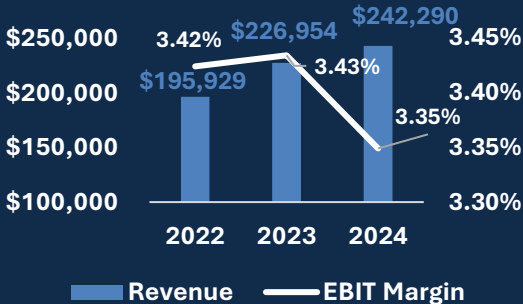
1 Year Price History



Recent Events Timeline



EBIT Margin with Annual Revenue



Risk 1: Input Costs, Tariffs, and Supply-Chain Disruptions

Costco operates on thin margins to maintain its low-price strategy and uses its large scale and market presence to attain favorable costs. Because of these margins, a significant change in its purchasing environment could negatively impact profitability, causing it to raise its prices or compress its margins even more. The most likely culprits would be significant inflation, large tariffs, or supply-chain bottlenecks.

Risk 2: Operational or Product Risk, Consumer Trust

Costco’s reputation for product quality and value is a critical element of its membership-based business model. Any large-scale disruption, whether it be a food-safety issue, private-label product recall, or product-chain failure, could cut into customer confidence and impact renewal rates. Aside from membership renewal, any large disruption mentioned could lead to other effects whether they be direct costs (refunds or lost sales), or more indirect costs like negative media coverage or legal exposure.

Catalysts

The largest catalyst for Costco is its expansion. International expansion is a large part of the growth strategy, as about a third of the new warehouses in the last year were opened outside of the US and Canada, and growth outside these countries offers huge upside with completely new markets and new member acquisitions. Digital expansion’s growth continues to enhance reach, convenience, and open even higher-margin segments. Another smaller, consistent long-term catalyst for Costco is the steady increase of membership fees over time, such as the 8% increase in 2024.

Valuation

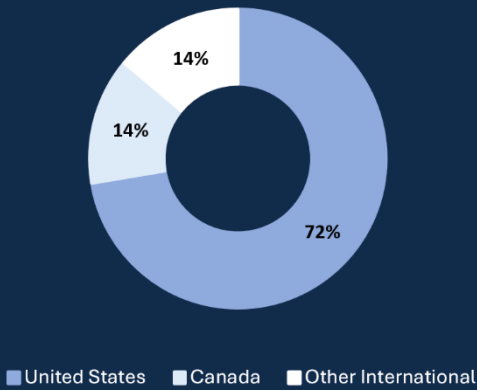
| DCF Analysis (\$mm) | | | | | | | |
|---------------------|------------|------------|------------|------------|------------|------------|------------|
| | FY2024 | FY2025 | FY2026 | FY2027 | FY2028 | FY2029 | FY2030 |
| | 12/31/2024 | 12/31/2025 | 12/31/2026 | 12/31/2027 | 12/30/2028 | 12/30/2029 | 12/31/2030 |
| Revenue | 254,453 | 275,235 | 295,800 | 315,830 | 335,120 | 353,309 | 370,073 |
| Revenue Growth | 5% | 8% | 7% | 7% | 6% | 5% | 5% |
| United States | 184,143 | 200,046 | 216,000 | 231,713 | 246,775 | 260,964 | 274,012 |
| Canada | 34,874 | 36,923 | 38,800 | 40,562 | 42,286 | 43,925 | 45,462 |
| Other International | 35,436 | 38,266 | 41,000 | 43,555 | 46,059 | 48,420 | 50,599 |
| EBIT | 9,285 | 10,383 | 10,000 | 13,225 | 14,662 | 16,120 | 17,578 |
| EBIT Margin | 4% | 4% | 3% | 4% | 4% | 5% | 5% |
| Tax Expense | 2,373 | 2,719 | 2,500 | 3,306 | 3,665 | 4,030 | 4,395 |
| Effective Tax Rate | 26% | 26% | 25% | 25% | 25% | 25% | 25% |
| NOPAT | 6,912.00 | 7,664.00 | 7,500.00 | 9,919.05 | 10,996.13 | 12,089.78 | 13,183.86 |
| D&A | 2,237 | 2,426 | 2,366 | 2,369 | 2,346 | 2,297 | 2,220 |
| Capex | 4,710 | 5,498 | 6,211 | 7,343 | 8,546 | 9,804 | 11,102 |
| Changes in NWC | (425) | (1,718) | (1,479) | (1,579) | (1,676) | (1,767) | (1,850) |
| UFCF | 4,864 | 6,310 | 6,507 | 6,524 | 6,472 | 6,349 | 6,152 |
| PV of FCF | | 6,274 | 6,224 | 5,842 | 5,426 | 4,984 | 4,522 |

Our base case DCF projection assumes a 30x EBITDA multiple, a revenue CAGR of 7.1% through FY2030, and EBIT margins around 4-5%. The multiple is conservative when compared to numbers from the last couple years, and we see EBIT margins rising a little with the increase in membership fees and successful expansion both internationally and digitally. Please reference the bottom of the appendix on the next page for descriptions of our downside and upside DCF projections.

Conclusion

Costco Wholesale Corporation remains one of the strongest and most consistent business models in retail, supported by its loyal membership base and efficient cost structure. The steady growth and membership revenue provide a durable business despite any economic uncertainty, whilst also supporting the expansion of the business into new markets. **We initiate \$COST with a BUY rating with a one-year price target of \$1,072, implying 15-16% upside.**

Revenue Segments

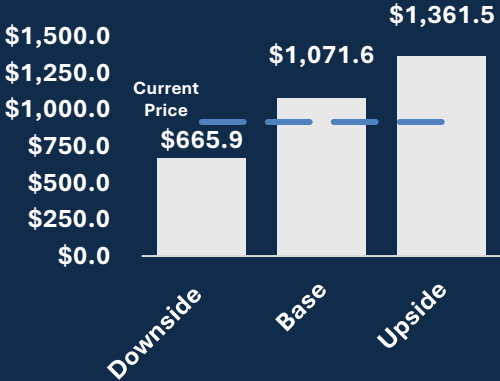


| Terminal Value | |
|----------------------------|------------|
| Exit Multiple Method | |
| 2034 EBITDA | \$19,799 |
| EV/EBITDA Exit Multiple | 30.0x |
| Terminal Value | \$593,967 |
| PV of Terminal Value | \$436,285 |
| PV of Projection Period | \$33,260 |
| PV of Terminal Value | \$436,285 |
| Implied TEV | \$469,545 |
| (-) Debt | \$9,935 |
| (+) Cash | \$15,284 |
| Implied Equity Value | \$474,894 |
| Diluted Shares Outstanding | 443 |
| Implied Share Price | \$1,071.56 |
| Upside/Downside | 15.5% |

Football Field Valuation Range



Risk vs. Reward - DCF Cases



| Income Statement (\$mm) | 2024A | 2025E | 2026E | 2027E | 2028E | CAGR% |
|-------------------------|---------|---------|---------|---------|---------|-------|
| Revenue | 254,453 | 275,235 | 295,800 | 315,830 | 335,120 | 7.1% |
| EBITDA | 11,522 | 12,809 | 12,500 | 15,594 | 17,007 | 10.2% |
| EBIT | 9,285 | 10,383 | 10,000 | 13,225 | 14,662 | 12.1% |
| NOPAT | 6,912 | 7,664 | 7,500 | 9,919 | 10,996 | 12.3% |

| Margin & Growth Data | 2024A | 2025E | 2026E | 2027E | 2028E | AVG% |
|----------------------|-------|-------|-------|-------|-------|-------|
| EBITDA Margin | 4.5% | 4.7% | 4.2% | 4.9% | 5.1% | 4.7% |
| EBIT Margin | 3.6% | 3.8% | 3.4% | 4.2% | 4.4% | 3.9% |
| Revenue Growth | 5.0% | 8.2% | 7.5% | 6.8% | 6.1% | 6.7% |
| EBIT Growth | 14.4% | 11.8% | -3.7% | 32.3% | 10.9% | 13.1% |

| Valuation Metrics | 2024A | 2025E | 2026E | 2027E | 2028E | AVG% |
|-------------------|-------|-------|-------|-------|-------|-------|
| P/FCF | 84.2x | 64.9x | 62.9x | 62.8x | 63.3x | 67.6x |
| EV/Sales | 1.6x | 1.5x | 1.4x | 1.3x | 1.2x | 1.4x |
| EV/EBITDA | 35.1x | 31.6x | 28.5x | 25.9x | 23.8x | 29.0x |
| FCF Yield | 1.2% | 1.5% | 1.6% | 1.6% | 1.6% | 1.5% |

Comparable Companies

\$mm

| Ticker | Mkt Cap | EV | P/E LTM | Revenue LTM | EBITDA LTM |
|--|------------------|------------------|--------------|------------------|-----------------|
| Walmart Inc. (NYSE:WMT) | \$869,280 | \$933,155 | 41.1x | \$693,153 | \$42,879 |
| Target Corporation (NYSE:TGT) | \$41,309 | \$57,370 | 10.6x | \$105,640 | \$8,668 |
| BJ's Wholesale Club Holdings, Inc. (NYSE:BJ) | \$12,481 | \$15,071 | 21.7x | \$20,912 | \$1,109 |
| The Kroger Co. (NYSE:KR) | \$45,791 | \$66,081 | 17.5x | \$147,000 | \$8,026 |
| Costco | \$423,232 | \$417,883 | 52.6x | \$275,235 | \$12,809 |

| Ticker | LTM EV/EBITDA | Gross Margin | EBITDA Margin | EBIT Margin | 1 Yr Rev Growth | Rate LF |
|--|---------------|--------------|---------------|-------------|-----------------|-------------|
| Walmart Inc. (NYSE:WMT) | 21.8x | 24.9% | 6.2% | 4.2% | | 4.2% |
| Target Corporation (NYSE:TGT) | 6.6x | 27.8% | 8.2% | 5.3% | | (1.6%) |
| BJ's Wholesale Club Holdings, Inc. (NYSE:BJ) | 13.6x | 18.7% | 5.3% | 4.0% | | 2.5% |
| The Kroger Co. (NYSE:KR) | 8.2x | 23.9% | 5.5% | 3.2% | | (2.1%) |
| Costco | 32.6x | 12.8% | 4.7% | 3.8% | | 8.2% |

| | | | | | | |
|-----------------|--------|-------|------|------|--|-------|
| High | 32.62x | 27.8% | 8.2% | 5.3% | | 8.2% |
| 75th Percentile | 21.76x | 24.9% | 6.2% | 4.2% | | 4.2% |
| Average | 16.57x | 21.6% | 6.0% | 4.1% | | 2.2% |
| Median | 13.59x | 23.9% | 0.0% | 4.0% | | 2.5% |
| 25th Percentile | 8.23x | 18.7% | 5.3% | 3.8% | | -1.6% |
| Low | 6.62x | 12.8% | 4.7% | 3.2% | | -2.1% |

Costco

| | | |
|--|-----------|----------------|
| Implied Enterprise Value (25th Percentile) | \$ | 105,461 |
| Implied Enterprise Value (Median) | \$ | 174,082 |
| Implied Enterprise Value (75th Percentile) | \$ | 278,756 |

| | | |
|---------------------------------------|-----------|---------------|
| Implied Share Price (25th Percentile) | \$ | 250.04 |
| Implied Share Price (Median) | \$ | 404.87 |
| Implied Share Price (75th Percentile) | \$ | 641.06 |

Weighted Average Cost of Capital (\$mm)

| | |
|-------------------------------|--------------|
| Market Risk Premium | 4.33% |
| Beta | 0.98 |
| Risk Free Rate | 4.39% |
| Cost of Equity | 6.45% |
| Weighted Average Cost of Debt | 1.90% |
| Tax Rate | 25.00% |
| Cost of Debt | 0.36% |
| Total Equity | \$409,568 |
| Total Debt | \$5,349 |
| Equity/Total Capitalization | 74.59% |
| Debt/Total Capitalization | 25.41% |
| WACC | 6.81% |

Downside Case: Our \$667 downside case is based on a 26x EBITDA multiple, with significantly less sales growth in every segment and an operating margin leveling out around 3.5%.

Upside Case: Our \$1,363 upside case is based on a 35x EBITDA multiple, a sales CAGR up to 8%, and an operating margin that levels out up at 5%. We assume more growth in every segment and total revenue is projected to almost hit \$390 million in 2030.

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