



Suggestion: SELL

Target: 412

Risk: Medium

SECTOR & STRATEGY ANALYSIS

COMPANY AND INDUSTRY OVERVIEW

Costco is a membership-only warehouse club retailer that sells branded and private-label products across multiple merchandise categories. The company operates on a model where customers pay an annual membership fee to access bulk products at discounted prices in no-frills, warehouse-style stores.

As of December 2025, Costco has a market capitalization of approximately \$416.2 billion, placing it among the largest publicly traded retailers globally.

Costco operates just over 900 warehouses worldwide across 14 countries as of FY2025. The majority of warehouses are in North America (the United States, Canada, and Mexico). The company's international footprint includes the United States, Canada, Mexico, the United Kingdom, Japan, South Korea, Taiwan, Australia, Spain, France, Iceland, China, New Zealand, and Sweden.

CLIENTS

Costco's client base consists of individual consumers ("Gold Star" members) and businesses, which purchase memberships separately. As of 2025, Costco reported approximately 145 million cardholders, including paid members and additional household cardholders associated with paid memberships. Paid household memberships number over 80 million, implying that paid memberships represent slightly more than half of total cardholders. Among paid members, Gold Star members account for the majority, indicating that B2C demand dominates overall membership.

Costco does not disclose a full geographic breakdown of memberships, but revenue distribution provides a useful proxy. In 2025, roughly three-quarters of total revenue was generated in the United States, with Canada representing a distant second at low double-digit percentages.

Costco's product assortment spans both essential and discretionary categories, though its core business is weighted toward essentials such as groceries (fresh, dry, and frozen), cleaning supplies, fuel, and pharmacy. Discretionary categories include electronics, appliances, home goods, and jewelry.

Although purchasing behavior differs across customer segments, bulk buying is central for both individual and business customers. Given Costco's low merchandise margins, volume is the primary growth driver. Individuals typically buy for direct consumption in larger-than-average quantities, while business customers may purchase inventory for resale or operational use.

SUPPLIERS



Costco's supplier network is deliberately concentrated, reflecting its strategy of carrying under 4,000 SKUs per warehouse. This limited assortment allows the company to build deep, long-term relationships with a small number of high-volume vendors while maintaining strict control over pricing and quality. Kirkland Signature, Costco's private label, accounts for a significant share of sales and embodies a hybrid supply approach: Costco both owns certain production operations and contracts closely with manufacturers to ensure consistency and value.

The supplier base is stable, with minimal turnover among core partners. Short-term variation occurs mainly in "treasure hunt" items, which are used to drive traffic and renew member interest. Because shelf space is scarce, suppliers face intense competition for inclusion, which limits their bargaining power. Costco's purchasing scale, combined with its willingness to shift volume or vertically integrate when suppliers raise prices excessively, reinforces its leverage.

Vertical integration has become a strategic lever in select categories where cost control and quality are critical. The poultry operation in Nebraska and in-house meat processing facilities are prime examples, giving Costco end-to-end oversight and cost stability. Such initiatives demonstrate its commitment to long-term value creation rather than short-term margin gains.

Costco actively monitors commodity and supply trends to manage input volatility. Buyers are expected to reset pricing as global conditions change, ensuring that cost reductions are passed quickly to members. The company also uses fixed-price and index-linked contracts, alongside supplier diversification, to mitigate exposure.

Supplier relationships are governed by Costco's Supplier Code of Conduct, which enforces labor, environmental, and ethical standards. While individual vendors have limited power, they benefit from predictable demand and fair dealing, strengthening long-term collaboration. Overall, Costco's supplier ecosystem reflects its disciplined model: concentrated, stable, cost-efficient, and aligned with its mission of delivering enduring member value.

COMPETITORS

Costco competes both directly within the warehouse-club segment and indirectly across the broader retail landscape. Its closest direct competitors are Sam's Club (Walmart) and BJ's Wholesale Club. Indirect competitors include broadline retailers such as Walmart and Target, large grocery chains including Kroger and Albertsons, and e-commerce platforms led by Amazon.



Sam's Club mirrors Costco's bulk, membership-based model and leverages Walmart's extensive logistics network and supplier relationships. It operates roughly 600 U.S. locations and has expanded its higher-tier membership offering to compete with Costco's Executive tier. BJ's Wholesale Club is smaller and more regionally concentrated, with approximately 250 clubs primarily along the U.S. East Coast, differentiating itself through fuel rewards and a more convenience-oriented format.



Outside the warehouse segment, Walmart competes directly in groceries and general merchandise without a membership barrier, targeting a broader consumer base. Target emphasizes curated assortments and convenience, appealing to more urban and style-oriented consumers. Traditional grocery chains compete for essential spending, while Amazon's Prime ecosystem challenges Costco on subscription loyalty through convenience, assortment breadth, and rapid delivery.

The U.S. warehouse-club market generates roughly \$350 billion in annual sales. Costco leads the segment with an estimated market share exceeding 60%, followed by Sam's

Club and BJ's. Costco's global revenue base substantially exceeds that of its direct competitors, reinforcing its scale advantage. Market capitalizations across retail reflect divergent growth narratives, with traditional grocers facing structural margin pressure and e-commerce players capturing convenience-driven demand.

The warehouse-club model has demonstrated long-term resilience, combining value pricing with customer trust and loyalty. Costco's strength lies in its scale, purchasing power, and membership ecosystem, which generate recurring fee income and high retention. However, expanding the member base—particularly among younger, urban, and digitally oriented consumers—remains more challenging as Amazon Prime and Walmart+ compete for similar subscription spending.

High capital intensity, thin margins, and logistical complexity create significant barriers to entry in the warehouse-club segment. As a result, the U.S. market remains a stable three-player structure, with competition focused on share capture rather than new entrants. The primary long-term threat comes not from new competitors, but from evolving consumer expectations around convenience and digital engagement.

CORPORATE STRATEGY AND PARTNERSHIP

Costco's corporate strategy emphasizes disciplined, sustainable growth that reinforces its low-cost, membership-based model. Its mission—to continually provide members with quality goods and services at the lowest possible prices—drives a long-term focus on operational efficiency, member loyalty, and measured expansion rather than short-term margin maximization.

Growth is driven by three core levers: expanding the warehouse network, increasing membership penetration and value, and generating incremental comparable sales at existing locations. Costco typically opens 20–30 warehouses annually, representing low single-digit unit growth, while same-store sales grow at mid-single-digit rates. This combination supports long-term revenue growth without diluting the company's cost advantage.

Costco also leverages partnerships to enhance member value and diversify revenue. A key partnership is with Citibank, which issues Costco's co-branded U.S. credit card. Cardholders receive rewards on Costco purchases, while Costco earns economics from the broader spending relationship. Similar arrangements exist in other markets. The company also partners with suppliers through structured funding programs that support promotions and discounts.

International expansion represents a significant long-term growth opportunity. Roughly one-third of warehouses are now located outside the United States, with strong performance in Asia and select European markets. Costco's entry strategy is cautious and data-driven, typically testing demand before scaling. Early success in China highlighted the model's global appeal, with strong membership adoption prompting additional store openings. Expansion continues across Japan, South Korea, Taiwan, and Europe, while new markets such as Southeast Asia and India represent future optionality.

Costco faces several strategic risks, including potential declines in renewal rates or negative reactions to membership fee increases. To mitigate this, fee increases are infrequent and typically paired with visible improvements in member value. Competitive pressure from Sam's Club and Amazon is addressed through operational excellence, exclusive products, and selective investments in digital capabilities.



DISTRIBUTION AND MARKETING

Costco's distribution model prioritizes velocity over storage. A narrow SKU count, palletized merchandising, and cross-dock logistics support rapid inventory turnover and low handling costs. The company frequently sells inventory before payables come due, resulting in a structurally compressed cash conversion cycle and low working-capital intensity.

Financial statements reflect these dynamics. High inventory turnover and significant accounts payable balances allow supplier financing to support operations rather than constrain liquidity. This structure is characteristic of high-turn, low-margin retail models and represents a structural advantage for Costco.

Marketing spend is minimal and embedded within pricing strategy rather than traditional advertising. Gross margins remain intentionally low, reflecting a disciplined markup policy that prioritizes member value. When costs decline, the majority of savings are passed through to members rather than retained as profit.

Member economics substitute for conventional advertising. High renewal rates validate the effectiveness of the value proposition, while new member acquisition is driven primarily by new warehouse openings, price leadership in traffic-driving categories, and the rotating “treasure hunt” assortment.

CAPITAL STRUCTURE

Costco is publicly traded, with a large majority of shares owned by institutional investors. Major shareholders include Vanguard, BlackRock, and State Street.

External capital dependency is low. Management reports limited long-term issuance in fiscal 2025, with activity largely concentrated in repayments of certain subsidiary notes and short-term facilities that were immaterial at year-end. Available bank credit is maintained, but near-term expansion is expected to be funded primarily through operating cash flow, cash on hand, and short-term investments.

Leverage remains modest. Using total debt in the mid-to-high single-digit billions and equity in the high twenties (in billions), the debt-to-equity ratio remains low by retail industry standards. Debt maturities are well staggered, and the majority of borrowings consist of fixed-rate senior notes, limiting earnings sensitivity to interest-rate movements.

Costco’s credit quality is firmly high grade. Public ratings place the company in the AA category by S&P and the Aa category by Moody’s, consistent with its strong balance sheet and stable cash flow profile.

Investments are financed predominantly through operating cash flow. Fiscal 2025 capital expenditures totaled approximately \$5.5 billion, while fiscal 2026 guidance ranges from \$6.0 to \$6.5 billion. These investments are primarily directed toward new warehouse openings, logistics infrastructure, systems upgrades, and selective manufacturing initiatives.



Key financial risks are manageable relative to the capital structure. Market risk disclosures highlight foreign exchange exposure managed through hedging for certain purchases, commodity exposure partially mitigated through fixed-price or index-linked contracts, and limited interest-rate exposure due to low leverage and fixed-rate debt. Working capital risk is structurally low, as high inventory turnover and the practice of often selling inventory before payables are due compress the cash conversion cycle.

Market Drivers & Price Change Catalysts

Market drivers

Scale economies shared drive price leadership, loyalty, and traffic. The model relies on limited assortment near 4,000 SKUs, cross-dock flow, and pallet merchandising, which keep SG&A low and turnover high. Membership as the core product sustains recurring profit and retention near 90%, with the Executive tier contributing disproportionately to sales, reinforcing the value loop. Kirkland, at roughly one-quarter to one-third of sales, deepens differentiation, strengthens supplier leverage, and reinforces member trust. Resilience in downturns stems from mix shifting toward essentials and the membership cushion, supporting stable cash generation. International growth—especially in Asia and selected European markets—combined with digital enablement and services expansion offers incremental runway. Industry structure remains competitive and substitution-rich, making consistent execution on price, assortment, and convenience essential.

Possible catalysts for price change

Membership fee increases, historically spaced every five to six years, can lift high-margin fee income and signal confidence in delivered value. Acceleration in unit growth or outperformance in new markets such as China can expand the addressable market faster than expected. Mix and margin tailwinds from services growth, Kirkland expansion, and improved digital convenience (BOPIS, delivery, broader online SKU count) can raise spend per member and support

earnings surprises. Working capital and COGS relief through commodity easing and supply normalization, amplified by high inventory turns and payable-financed dynamics, can further support EPS upside.

Negative catalysts include deterioration in renewal rates driven by competitive promotions, sustained share shift to e-commerce substitutes, or tariff and labor cost shocks that compress already thin merchandise margins.

ESG Commitment

Costco's ESG strategy emphasizes sustainability while addressing evolving regulation. By prioritizing efficiency, fair labor practices, and ethical governance, the company reinforces long-term resilience and credibility with stakeholders.

Costco targets net-zero greenhouse gas emissions by 2050, with goals to reduce Scope 1 and 2 emissions by 39% by 2030 (from a 2020 baseline) and source 100% renewable electricity by 2035. The company has rolled out LED lighting, invested in solar installations, and upgraded refrigeration systems to lower-emission alternatives. The most significant challenge remains Scope 3 emissions from suppliers and product use, where Costco seeks progress by leveraging buying power and encouraging supplier adoption of greener practices.

Waste reduction is another priority. Costco recycles large volumes of cardboard, plastic, and food waste and continues to reduce single-use plastics by shifting toward recyclable or compostable packaging. The bulk-purchase model also reduces packaging per unit sold. The company publishes sustainability reporting outlining emissions, energy efficiency, and waste diversion progress.

On the social dimension, Costco emphasizes employee welfare, product safety, and community engagement. The company is recognized for competitive wages and benefits in U.S. retail, supporting lower turnover and stronger workplace culture. On the consumer side, Costco maintains rigorous product safety processes and can communicate

directly with members in the event of recalls. Charitable initiatives—including food donations, children’s hospital support, and disaster relief—reinforce community engagement. Across the supply chain, Costco’s Supplier Code of Conduct sets standards around forced labor, working conditions, and ethics.

Costco’s governance structure supports shareholder alignment and transparency. The board is independent, voting rights are straightforward, and executive compensation remains moderate relative to peers. The Code of Ethics prioritizes compliance, member value, and fair employee treatment, supporting low incidence of governance controversies.

Operating across jurisdictions creates regulatory complexity around trade, labor, environmental compliance, and data privacy. Costco mitigates tariff exposure through sourcing diversification and private-label strategy, and its wage and benefit structure often places it ahead of shifting labor regulation. The company operates under strict standards for food safety, fuel storage, and pharmaceuticals, while adapting to evolving rules on refrigerants and packaging. On data, Costco maintains compliance with GDPR and CCPA and has not faced major data-breach controversies. Antitrust exposure remains relatively limited given market structure and competitive intensity.

Overall, Costco’s ESG approach reinforces operating efficiency and mitigates regulatory risk while strengthening trust with employees, members, and shareholders.

PESTEL ANALYSIS

Political

The key political exposure has been to trade policy and tariffs. Costco’s merchandise costs are affected by tariffs in markets where it sources goods and operates warehouses. Given Costco’s thin merchandise margins, higher tariffs can pressure profitability, while passing costs through to consumers risks undermining volume—Costco’s primary growth driver.

More broadly, given that a meaningful share of warehouses are outside the U.S., Costco's performance is exposed to geopolitical conditions, policy shifts, and trade measures imposed internationally.

Economic

Costco remains highly dependent on the U.S. and Canada for most net sales. Within the U.S., geographic concentration is also meaningful, so a regional slowdown driven by weaker purchasing power or higher unemployment could materially impact performance.

On a macroeconomic level, Costco is exposed to higher energy and gasoline costs, unemployment, healthcare costs, housing-market weakness, and reduced consumer confidence, among other factors. These variables can impact demand and operating costs, influencing the sales mix and inventory decisions.

Finally, given Costco's global operations and sourcing footprint, the company is exposed to FX volatility because consolidated reporting is in USD. This exposure will increase as international operations expand. Moreover, a portion of supply is purchased in currencies different from those in which it is sold, which can pressure margins if FX moves cannot be passed on to customers.

Social

Costco is exposed to shifts in consumer preferences and consumption habits, which can alter demand and require changes to product mix. Failure to identify or respond quickly to changes in consumer tastes can increase membership churn and reduce demand for key categories. Because Costco's model relies heavily on loyalty and trust, reputational risk carries large downside, even if it is generally a tail risk.

Technological

Technology is critical to Costco's operating model, supporting payment processing, inventory management, and performance monitoring across the network. Costco's supply chain is particularly exposed to technological incidents, including cybersecurity threats, which could disrupt distribution, processing, packaging, and manufacturing, impairing the company's ability to move goods efficiently and serve members. Costco continues to invest in IT and resiliency initiatives, recognizing that failures in execution would be costly and operationally harmful.

Environmental

Costco's operations and supply chain are energy-intensive, consuming fuel and electricity. Regulatory changes related to emissions, waste, or environmental compliance may raise costs and require incremental capex. Failure to comply with standards for wastewater treatment and hazardous substance management can result in penalties or operational disruptions, including store closures in severe cases.

Costco is also exposed to climate-related events that can disrupt supply chains and reduce footfall. In extreme scenarios, such events can cause physical asset damage and long-term store closures.

Legal

Changes in laws and regulations test Costco's ability to adapt processes while maintaining compliance. Expanded reporting obligations and increased penalties can raise the cost of doing business and reduce operational flexibility. These risks are most visible in international markets, but regulatory volatility can also affect domestic operations.

SWOT ANALYSIS

Strengths

Costco's greatest strength is its unmatched scale and buying power. Its global warehouse network generates exceptionally high sales volume per location, which allows the company to negotiate industry-leading pricing and share scale economies with members. This cost leadership is reinforced by operational efficiency: cross-docking, limited SKU count (~4,000 items), and pallet-based merchandising reduce handling, shrink, and labor costs, keeping SG&A structurally low relative to traditional retailers.

Costco also benefits from extraordinary member loyalty. Renewal rates remain around 90% globally, and the Executive tier represents roughly half of members while accounting for a disproportionately large share of sales, generating recurring, high-margin membership fee income that drives most of net profit.

Kirkland Signature, contributing roughly 25–30% of total sales, is another structural advantage—offering strong quality at lower prices, strengthening customer trust, and improving negotiating leverage with suppliers. Financially, Costco maintains a fortress balance sheet, minimal net leverage, and strong operating cash flow generation. Its long-tenured workforce, competitive wages, and low turnover further support operational consistency and customer experience, reinforcing brand reputation and competitive moat.

Weaknesses

Costco's limited assortment also represents a structural constraint. With only one or two brands per category, customers seeking variety or niche products may shift spend to supermarkets or e-commerce. The paid membership requirement can also exclude non-members and becomes a more visible friction point during periods of weaker consumer confidence, when discretionary subscription spending can soften.

Costco's e-commerce capabilities lag major competitors such as Amazon and Walmart. Online assortment remains narrower, and reliance on partners for same-day delivery reduces control over the customer experience and compresses digital margins.

Another structural weakness is Costco's thin merchandise margin profile, with merchandise gross margins typically in the low teens. While offset by membership income, this leaves limited buffer to absorb cost inflation, tariff shocks, or supply-chain disruptions without affecting profitability. Costco also remains heavily concentrated in North America, exposing it to U.S. consumer cycles and limiting geographic diversification. Finally, the no-frills warehouse format does not appeal to shoppers prioritizing convenience, ambiance, or high-touch service.

Opportunities

Costco has meaningful runway for international expansion, particularly in high-growth and under-penetrated markets. China remains a standout opportunity given early store performance and rapid membership adoption, while India, Southeast Asia, and select European markets offer long-term optionality.

E-commerce is another growth lever. Enhancing digitally enabled sales through BOPIS, broader online assortments, improved delivery, and stronger mobile engagement could increase wallet share and attract younger consumers.

Costco can also expand higher-margin supplementary services—Costco Travel, pharmacy, optical, hearing aids, and financial service partnerships—which increase member stickiness while requiring relatively low incremental capital. Further Kirkland category expansion can deepen differentiation and reinforce the value proposition. Sustainability investments (renewable energy, responsible sourcing, and transparency) can strengthen brand equity and reduce long-term operating risk.

Threats

Costco faces intense competition from multiple fronts: Walmart/Sam's Club, BJ's, traditional grocers, and Amazon. Promotional intensity and convenience-driven substitution—especially through e-commerce—can pressure traffic and renewal rates if perceived value weakens.

Macroeconomic risks remain relevant. Sustained inflation can shift the sales mix toward essentials and away from discretionary categories. Long-term demographic trends toward smaller households and increased urban living may also reduce demand for bulk purchasing.

Regulatory risks include changes in labor laws, environmental standards, and trade policy—particularly tariffs—that can raise operating and merchandise costs. Costco mitigates tariff exposure through supplier diversification, but exposure remains material. Supply-chain disruptions can also reduce availability and raise freight costs, undermining Costco’s low-price promise. Finally, saturation in mature markets, particularly the U.S. and Canada, could limit domestic expansion and increase reliance on international growth to sustain long-term unit growth.

Porter Five Forces Analysis

Costco operates in a highly competitive retail environment shaped by low margins, intense price pressure, and evolving consumer expectations. The company’s model—scale, operational efficiency, and membership loyalty—helps mitigate several negative forces, but the industry remains structurally challenging.

Overall, the forces can be summarized as: Competitive Rivalry – Strong; Buyer Power – Strong; Supplier Power – Weak; Threat of Substitutes – Strong; Threat of New Entrants – Moderate/Low.

1. Threat of New Entrants – Moderate to Low

Entering the warehouse-club segment requires enormous upfront capital, extensive supply-chain infrastructure, significant real estate investment, and sophisticated procurement capabilities. Costco and Sam’s Club have spent decades building nationwide networks, logistics systems, and supplier relationships—barriers that are prohibitively expensive for newcomers. Thin margins make it nearly

impossible for new players to compete on price without comparable volume.

No large warehouse competitor has successfully emerged in decades, pointing to meaningful structural entry barriers. New entrants would also struggle to replicate Costco's membership scale (well over 140 million cardholders) and loyalty metrics (renewal rates around 90%), which underpin recurring fee income and reinforce pricing discipline.

That said, the threat is not zero. Regional niche clubs, discount chains, and online platforms can still chip away at specific categories. These players bypass the need for physical warehouses and can selectively target higher-margin goods or convenience-driven segments. Still, none replicate the full Costco value proposition at scale. Thus, while peripheral category entry exists, the probability of a new major warehouse-club rival remains low.

2. Bargaining Power of Suppliers – Weak

Costco's supplier base is large and diversified, and its purchasing scale makes Costco a critical customer for many vendors. With more than \$275 billion in annual revenue, Costco sits among the largest global retail buyers, shifting bargaining power heavily in its favor.

If a supplier resists pricing or terms, Costco can often switch to alternatives, reduce SKU space further, or replace an item with a Kirkland Signature equivalent. Kirkland, accounting for roughly 25–30% of sales, functions as a powerful fallback option that structurally reduces supplier leverage.

Certain categories with highly differentiated products (e.g., premium consumer electronics) can grant suppliers some pricing power, but Costco typically responds by accepting lower margins, limiting assortment exposure, or avoiding categories where the economics weaken member value. Moreover, forward integration by manufacturers into Costco-scale distribution is rarely feasible. Overall, Costco's scale, limited-SKU strategy, and private-label strength reduce supplier power to a structurally weak force.

3. Bargaining Power of Buyers – Strong

Consumers face minimal switching costs in retail. If Costco raises prices or its membership fee becomes less attractive, shoppers can shift to Sam’s Club, BJ’s, Walmart, Target, online retailers, or local grocers. Price transparency—especially online—further increases buyer power by enabling fast comparison across channels.

Costco’s model also formalizes buyer power: members renew annually, creating a recurring decision point to reassess value. While renewal rates remain extremely high (around 90% globally and above 90% in North America), the ease of not renewing reinforces buyer leverage.

Costco mitigates this through a differentiated value proposition: consistently low prices, strong quality perception, a trusted private label, and a compelling in-store experience. Bulk packaging also appeals to specific segments (large households and small businesses) that value Costco more than average consumers – softening buyer power within its core demographic.

Nevertheless, because consumers have abundant alternatives and low switching costs, buyer power remains a strong and persistent force.

4. Threat of Substitutes – Strong

Customers can fulfill most shopping needs across numerous retail formats without visiting Costco. Online retail—most notably Amazon—offers convenience, smaller pack sizes, and fast delivery, appealing particularly to smaller households and time-constrained consumers. Traditional grocers (Kroger, Publix, Aldi), convenience stores, and pharmacies also substitute portions of Costco’s basket, especially for fill-in purchases.

Meal-kit services, restaurant delivery, and business-to-business distributors further substitute parts of Costco’s assortment. The rise of e-commerce grocery and same-day delivery increases substitution risk as households increasingly trade bulk savings for convenience.

Costco has responded with expanded e-commerce capabilities, delivery for big-and-bulky items via Costco Logistics, and partnerships that support same-day delivery. However, these offerings still complement rather than replace the warehouse-centric model. Despite Costco's differentiation—treasure-hunt dynamics, compelling pricing, and Kirkland quality—the abundance of retail and digital substitutes keeps this force strong.

5. Competitive Rivalry – Very Strong

Competition in retail is intense, spanning direct rivals (Sam's Club and BJ's) and a broad ecosystem of broadline, grocery, e-commerce, and specialty retailers. Sam's and BJ's target Costco's core customer base with similar membership models and aggressive pricing. Walmart and Amazon add pressure from adjacent angles: Walmart competes in grocery and general merchandise at scale, while Amazon competes on convenience, assortment, and delivery speed.

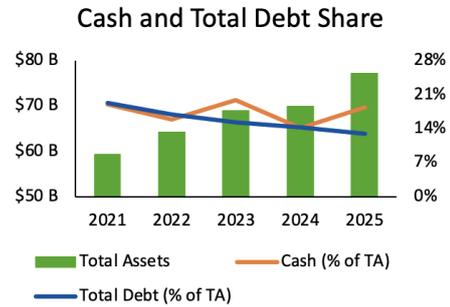
Rivalry is intensified by razor-thin industry margins and high customer willingness to switch. Price, convenience, assortment, and service become constant battlegrounds. Competitors frequently run promotions designed to poach Costco members, including discounted memberships and aggressive online deals.

Costco's defense rests on scale, strong renewal economics, high volumes per SKU, and a durable reputation for value. Kirkland and the in-warehouse experience (treasure hunt, food court, samples) create differentiation that is hard to fully replicate. Even so, with major competitors investing heavily in omnichannel capabilities and automation, rivalry remains the most powerful negative force Costco faces.

Conclusion

Costco operates in a structurally challenging sector defined by intense rivalry, powerful customers, and abundant substitutes. However, its scale, efficiency, and membership-driven economics reduce supplier leverage and insulate the company from new large entrants. Long-term success hinges on maintaining price leadership, member loyalty, and

operational discipline in an environment where convenience and digital engagement are increasingly decisive.

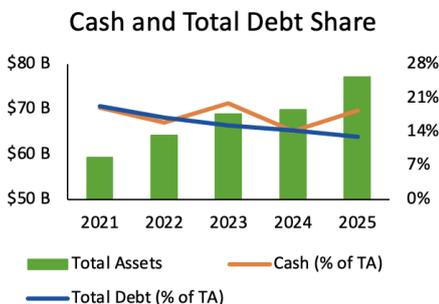


FINANCIAL STATEMENT ANALYSIS

INCOME STATEMENT

Over the FY2021–FY2025 period, Costco achieved a CAGR of 10,54%, with peak growth during the COVID years. As pandemic-driven demand normalized, growth softened in FY2024 as inflation reduced customer purchasing power but rebounded toward high single-digit levels in FY2025. Membership fee revenue remains a crucial contributor to profitability. It represents roughly 1,9% of total revenue but contributes disproportionately to net income. FY2025 was the third consecutive year in which membership fee growth outpaced net sales growth (10,25% vs. 8,13%), reflecting strong renewal rates (92,3% in the U.S. and Canada and 89,8% internationally) and continued growth in the paid member base.

Costco continued steady warehouse expansion (24 new stores in FY2025) while maintaining measured international rollout. Domestic operations still generate the majority of sales. COGS discipline remains central to the model, as Costco’s long-term strategy is to keep merchandise gross margins in the low teens and pass cost improvements through to members, reinforcing price leadership and member loyalty.



BALANCE SHEET

FY2021–FY2025 showed a 38,7% increase in total assets (to approximately \$77,1 billion) and a 55,9% increase in equity, driven by retained earnings. This supported a strong liquidity position,

with a sizable cash balance (~\$14,2 billion), enabling Costco to self-fund expansion and absorb shocks without reliance on short-term debt (approximately \$361 million). Total debt declined over the period, reflecting conservative capital management and balance-sheet strength.

Short-term liabilities trump long-term ones (\$37 to \$11 billion), with accounts payable being the largest item in short-term liabilities (\$19,8 billion). This closely aligns with Costco’s inventories (\$18,1 billion), demonstrating how Costco finances its inventory using trade creditors.

RATIO ANALYSIS

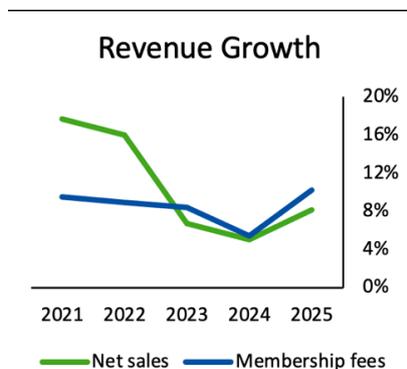
PROFITABILITY

Costco’s merchandise gross margin is intentionally kept in the low teens, consistent with its strategy of prioritizing member value and driving profitability through membership income, scale efficiencies, and high turnover. Gradual improvement in operating margin (3,77%) and net margin (2,94%) reflects disciplined execution while maintaining price leadership.

Costco’s ROE remains consistently strong (27,8%). ROIC is also high (22,5%), reflecting efficient capital allocation and the structural benefits of the membership model and working-capital dynamics.

EFFICIENCY

Costco’s efficiency indicators reflect a business engineered for scale and speed. Inventory turnover is among the strongest in the sector (13,1x), supported by a narrow product range of roughly 4.000 SKUs, which drives faster rotation and stronger purchasing economics.



The company benefits from favorable supplier terms, with high creditor days (26,2). Combined with low debtor days (4,2) and inventory days (24), Costco generates a near-zero cash conversion cycle (around 2 days), allowing a meaningful portion of operations to be financed through supplier credit rather than external leverage.

LIQUIDITY

Costco maintains a robust liquidity profile, supported by a large cash balance and stable current and quick ratios (1,03 and 0,55). Working capital remains deliberately managed, consistent with a high-turn model that allows strong liquidity without excessive idle capital.

SOLVENCY

Solvency metrics highlight a conservative capital structure and low financial risk. Leverage remains modest, with a low debt-to-equity profile relative to most retailers, and extremely strong interest coverage (67,4), reflecting limited borrowing and high operating stabilit

COMPANY VALUATION

Fiscal Year	Revenues (\$M)	Growth rate
FY22	226.95	—
FY23	242.29	6.76%
FY24	254.45	5.02%
FY25	275.24	8.17%
FY26E	298.90	8.60%
FY27E	324.59	8.60%
FY28E	352.50	8.60%
FY29E	375.05	6.40%
FY30E	390.79	4.20%

Cost of equity	
Risk free rate	4.150%
Equity Risk Premium	4.330%
Beta (5Y monthly)	1.01
Ke	8.51%

REVENUES

This table presents historical and forecasted revenue growth for Costco. Post-pandemic growth was exceptionally rapid, peaking at nearly 16% in 2022, before normalizing. Over the forecast period, growth is assumed to gradually decelerate as the company scales, converging toward a perpetual growth rate of 2%. This assumption is consistent with long-term inflationary tendencies in the United States, where Costco's main activities are concentrated.

WACC

COST OF EQUITY

The cost of equity for Costco Wholesale Corporation was estimated using the Capital Asset Pricing Model (CAPM), which determines the return required by shareholders based on the company's systematic risk relative to the market.

For this calculation, the following parameters were used: a risk-free rate of 4.15%, based on the yield of 10-year U.S. Treasury Bonds; a beta of 1.01, derived from a five-year monthly regression analysis; and a market risk premium of 4.33%, consistent with the estimates published by Professor Aswath Damodaran.

By applying these values to the CAPM formula, the resulting cost of equity (Ke) is 8.51%. This figure represents the minimum return required by shareholders for investing in Costco, given the level of risk associated with the company's equity.

Cost of debt

Risk free rate	4.150%
Corporate rating	AA
Default spread	0.60%
Kd (if and default spread)	4.75%
Kd (using effective interest rate)	1.71%
Tax rate	25.77%

COST OF DEBT

The cost of debt was determined by analyzing both the company's effective interest rate and its credit risk profile. Based on financial data, the effective cost of debt is 1.71%, obtained by dividing total interest expenses of USD 170 million by total debt of USD 9.949 billion.

In addition, a theoretical cost of debt was estimated using the risk-free rate and default spread corresponding to Costco's AA credit rating. Assuming a risk-free rate of 4.15% and a default spread of 0.60%, the pre-tax cost of debt (Kd) is 4.75%.

Considering an effective tax rate of 25.77%, the after-tax cost of debt is reduced to approximately 3.52%, reflecting the tax shield benefits from interest deductibility.

WACC

WACC	
MV of equity	\$409,045 mn
MV of net debt	\$9,949 mn
Total capital (D+E)	\$418,995 mn
Tax rate	25.77%
E/(D+E)	97.63%
D/(D+E)	2.37%
WACC	8.40%

The Weighted Average Cost of Capital (WACC) represents the average rate of return that Costco must earn on its overall capital base to maintain its market value and satisfy both debt holders and equity investors. It is calculated by weighting the cost of equity and the after-tax cost of debt according to their proportions in the company's capital structure.

As of the reference date, Costco's market value of equity amounts to USD 409,045.5 million (representing 97.63% of total capital), while net debt totals USD 9,949 million (or 2.37%). Considering a cost of equity (Ke) of 8.51% and an after-tax cost of debt (Kd) of 3.52%, the resulting WACC is 8.40%.

This value indicates the minimum rate of return the company must achieve on its investments to preserve shareholder value. A WACC of 8.40% reflects Costco's strong financial position, characterized by a low level of leverage and an efficient balance between equity and debt financing.

DISCOUNTED CASH FLOW MODEL

The DCF valuation was conducted over a five-year explicit forecast period (FY2026–FY2030), with revenue growth initially projected at 8.6% and gradually declining toward the perpetual growth rate

of 2% by FY2031. This framework reflects normalization from elevated post-pandemic growth toward a mature steady-state profile.

Under our model, FCF increases meaningfully through FY2030 (from \$6,67 billion to \$10,41 billion). Discounting these cash flows at a WACC of 8,40% implies an enterprise value of \$178,5 billion. Adjusting for Costco’s net cash position yields an equity value of approximately \$183 billion. Dividing by 444,8 million diluted shares outstanding results in an implied value per share of \$413,23, representing roughly 54% downside relative to the reference share price of \$913,59 (28th Nov. 2025). A more detailed breakdown is provided in the appendix.

SENSITIVITY ANALYSIS

Given the model’s sensitivity to assumptions, we include a sensitivity analysis showing how changes in WACC and perpetual growth (g) affect the implied share price. This illustrates both: upside under more optimistic inputs and downside under more conservative scenarios.

Share Price	WACC				
	6,29%	6,79%	7,29%	7,79%	8,29%
1,50%	463,69	420,31	384,44	354,27	328,55
1,75%	484,73	437,16	398,18	365,66	338,12
2,00%	508,23	455,77	413,23	378,04	348,45
2,25%	534,63	476,42	429,76	391,53	359,64
2,50%	564,51	499,48	448,02	406,30	371,79

COMPARABLE COMPANIES ANALYSIS

COMPANIES/RATIOS	EV/Sales	EV/EBITDA	P/E
Costco	1,41	30,40	48,74
BJ's Wholesale club	0,71	13,54	21,86
Walmart	1,30	21,00	43,16
Target	0,51	6,27	9,52
Kroger	0,43	7,37	16,15

To assess more precisely the fair value of Costco, we decided to focus on comparable companies and their performance as well, conducting a relative value analysis. Due to the size of Costco (which is fundamental for the efficiency of the economies of scale, one of its main sources of competitive advantage) and the vastness of its operations, it is hard to find a perfectly overlapping competitor. One could consider online platforms, such as Amazon, to be one of its main sources of competition as well. However, we decided to exclude such companies from the analysis, as they present systematically different business models and metrics, and thus information regarding them would likely skew the data distribution.

We chose to compare Costco with BJ's Wholesale Club, Walmart, Target, and Kroger. BJ's Wholesale Club has the most similar business model, being the only other publicly listed membership-only wholesale club, whereas Kroger is the largest supermarket operator in the United States. Target and Walmart, on the other hand, are two large-scale retail corporations that similarly rely on economies of scale as a core source of competitive advantage. Moreover, Sam's Club—a direct competitor to Costco—operates as a division of Walmart, further supporting its inclusion.

Given that these companies differ significantly in size and current market price, we decided to use the sector median rather than the mean when calculating valuation multiples (EV/Sales, EV/EBITDA, and P/E), as the median is less affected by outliers. For example, the average sales level would be heavily influenced by Walmart, which is the largest company in the world by revenue.

The results of our analysis show that Costco is significantly overvalued, as the intrinsic value per share calculated using all three multiples is materially lower than the current stock price. More specifically, we find that using the EV/Sales multiple, the fair value is \$451,28, while the EV/EBITDA multiple implies \$403,38, and the P/E ratio implies \$411,67, all well below the current share price of \$913,59 (28th Nov. 2025).

RECOMMENDATION

Based on the analysis above, Costco appears materially overvalued, with the market premium versus fair value in the 51%–56% range across our valuation methods. While the company's fundamentals are exceptionally strong—high

efficiency, strong liquidity, and durable economics—the current market price discounts more cash generation than the business is likely to deliver under reasonable assumptions. Our recommendation is therefore a SELL at current levels, driven by valuation rather than business quality.

DCF APPENDIX

BASE SCENARIO

EBIT ESTIMATION		Historicals				Explicit forecast					
Data in \$ billion)	2022A	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E	2031E	
Income statement											
Sales	226.95	242.29	254.45	275.24	298.90	324.59	352.50	375.05	390.79	398.61	
Growth	15.8%	6.8%	5.0%	8.2%	8.60%	8.60%	8.60%	6.40%	4.20%	2.00%	
COGS (excluding D&A)	199.38	212.59	222.36	239.89	258.81	281.06	305.22	324.74	338.38	345.15	
% of sales	86.85%	86.71%	86.51%	86.28%	86.59%	86.59%	86.59%	86.59%	86.59%	86.59%	
Gross profit	28	30	32	35	40	44	47.28	50	52	53	
Other SG&A expenses	19.78	21.59	22.81	24.97	27	29	32	34	35	36	
% of sales	8.70%	8.90%	9.00%	9.10%	8.93%	8.98%	9.00%	9.00%	8.98%	8.99%	
EBITDA	10.07	10.60	11.52	12.81	16.25	17.46	18.89	20.10	21.04	21.41	
Margin	4.44%	4.37%	4.53%	4.65%	5.44%	5.38%	5.36%	5.36%	5.38%	5.37%	
D&A	2.28	2.49	2.24	2.43	2.8	3.1	3.3	3.6	3.7	3.8	
% of sales	1.00%	1.03%	0.88%	0.88%	0.95%	0.95%	0.95%	0.95%	0.95%	0.95%	
EBIT	7.79	8.11	9.28	10.38	13.41	14.38	15.55	16.54	17.33	17.63	
Margin	3.43%	3.35%	3.65%	3.77%	4.49%	4.43%	4.41%	4.41%	4.44%	4.42%	
DCF											
Data in \$ billion)	2022A	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E	2031E	
EBIT	7.79	8.11	9.28	10.38	13.41	14.38	15.55	16.54	17.33	17.63	
Operational taxes	1.93	2.2	2.37	2.72	3.46	3.71	4.01	4.26	4.47	4.54	
NOPAT	5.86	5.91	6.91	7.66	9.96	10.68	11.54	12.28	12.87	13.08	
Depreciation	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(4)	(4)	(4)	
Gross cash flows	3.58	3.42	4.67	5.23	7.12	7.60	8.20	8.72	9.16	9.30	
WC value											
% of sales											
Change in noncash WC	1.224	-1.714	-0.425	-2.079	-0.81	-0.88	-0.96	-1.02	-1.07	-1.09	
% of sales	0.54%	-0.71%	-0.17%	-0.76%	-0.27%	-0.27%	-0.27%	-0.27%	-0.27%	-0.27%	
CAPEX	3.89	4.32	4.71	5.5	5.53	6.00	6.52	6.94	7.23	7.37	
% of sales	1.70%	1.80%	1.90%	2.00%	1.85%	1.85%	1.85%	1.85%	1.85%	1.85%	
FCFF	3.03	5.79	4.86	6.67	8.08	8.64	9.33	9.92	10.41	10.58	
TV cash flow											
Year					1	2	3	4	5		
Discount factor					0.9320	0.8687	0.8096	0.7546	0.7033		
PV FCFF					7.529	7.503	7.551	7.487	7.321		
Terminal Value										200.578	
PV terminal value										141.065	
Enterprise Value										178.454	
(Net Debt)										5.349	
Equity Value										183.803	
NOSH										0.4448	
Share Price										413.23	
Current Share Price										913.59	
Upside/Downside										-54.77%	
Recommendation										SELL	