AZ STOCKS
Stocks from A to Z

Costco

The best business in retail at a price that leaves no room for error

DEEP DIVE

November 2026

COMPANY PROFILE

Costco

THESIS

Costco charges memberships so it can sell products at almost no margin, and that premise, executed for 40 years, has built competitive advantages that reinforce each other. In this report I assess the quality of that model and what a retailer that collects before it sells is really worth.

THE COMPANY

Costco runs a global chain of membership-only warehouse clubs. It offers two tiers: Gold Star (USD 65 a year) and Executive (USD 130 a year, with 2% cashback on purchases).

Executive members are the heart of the business: they make up half of all members and around 76% of sales. The global renewal rate remains close to 90%.

TARGET PRICE
USD 541

UPSIDE / DOWNSIDE
-49.0%

SECTOR
Retail

EXCHANGE
NASDAQ

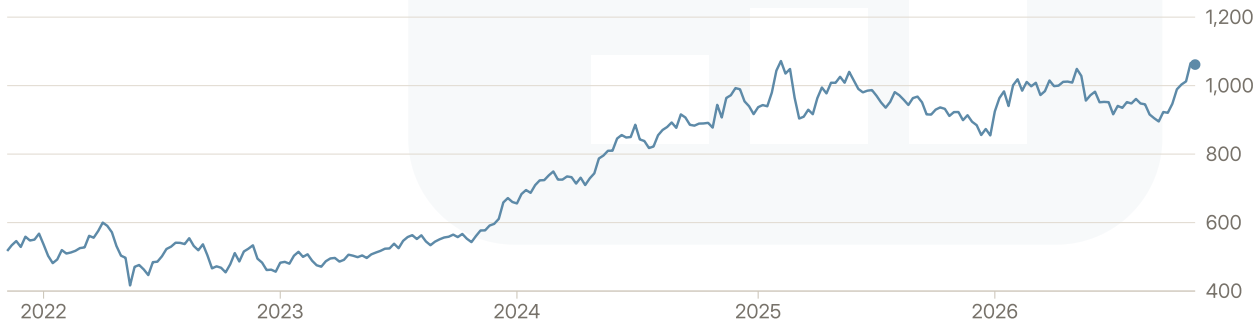
CURRENCY
USD

LAST UPDATED
November 2026

MARKET DATA AS OF 2026-11-06

PRICE	52-WEEK RANGE	5-YEAR CHANGE	BETA (5Y)
USD 1,061.47	844.06 – 1,096.50	+105%	0.83

WEEKLY SHARE PRICE, LAST 5 YEARS



Legal disclaimer

The information contained in this document is for educational and informational purposes only. It does not constitute an offer, recommendation or financial, investment, legal or tax advice of any kind. The opinions expressed reflect a personal analysis and may change without notice.

Investing in financial markets involves risks, including the possible loss of all invested capital. Each reader or investor is responsible for doing their own research and, where necessary, consulting a registered financial advisor before making investment decisions.

The author accepts no liability for any loss or damage arising directly or indirectly from the use of the information presented here.

Contents

01	Introduction	05
02	Business model	07
03	Business quality	11
04	Management and capital allocation	16
05	Competitive position	17
06	The bulls vs. the bears	24
07	Valuation	25
08	Conclusion	29

SECTION 01

Introduction

There is one fact about Costco that never stops surprising people the first time they see it: the roughly $5,900 million in membership fees of FY2026 are equivalent to almost two thirds of total net income, which was $9,200 million. It is a comparison of scale, since fees are revenue before taxes and their associated costs, but it shows something clear: without memberships, the business of selling products would contribute a much smaller share of profit. The most admired company in global retail does not make money selling products. **It makes money charging for the right to come in and buy them**.

That model is, at the same time, the simplest and the deepest in the sector. Simple because anyone can understand it in two sentences. Deep because its competitive implications are hard to replicate even if you understand them perfectly. To offer prices below the market sustainably, you need a base of recurring revenue that funds that promise. To have that base, you need your customers to trust your value proposition enough to pay you before they buy anything. And to earn that trust, you need decades of disciplined and consistent execution. It is not a formula that can be copied with capital.

Costco is probably one of the best retail businesses in existence, and at the same time one of the most expensive to buy. With a P/E of ~45x at the time of writing, the market is not paying for what Costco is today but for what it will be a decade from now, with 1,200 warehouses worldwide, more than 100 million member households and Kirkland as the largest mass consumer brand.

History

THE ORIGINS: SOL PRICE, FEDMART AND THE INVENTION OF THE WAREHOUSE CLUB

Although it was founded in 1983, Costco's story does not begin that year. It begins in 1954, when Sol Price founded FedMart in San Diego, a low-price mass retail concept initially aimed at federal government employees. There Price developed the core insight that would define the warehouse club: if you charge a membership up front, you can sell at prices so low that customers have no incentive to go anywhere else. The margin on the product is irrelevant if the membership has already paid for the operation.

Jim Sinegal worked with Price for years at FedMart and absorbed that philosophy with the depth of someone who sees it applied every day. When Price was forced out of FedMart by an institutional investor, he launched Price Club in 1976, refining the model. Sinegal went with him, learned, and in 1983, together with lawyer and businessman Jeffrey Brotman, opened the first Costco warehouse in Seattle, Washington.

In 1993, Price Club and Costco merged to create PriceCostco, and in 1997 the company adopted its final name, Costco Wholesale. That merger gave Costco the scale it needed to negotiate with the big consumer goods manufacturers from a position of real power. From then on, growth was organic,

disciplined and consistent: never a large acquisition, never a strategic bet that took focus away from the core model.

THE SINEGAL MODEL: A COMPANY DESIGNED FOR ITS MEMBERS

Jim Sinegal was CEO of Costco from 1983 to 2011. Twenty-eight years leading the same company with the same philosophy. His operating rules were explicit and non-negotiable: gross margins would never exceed 14% on branded products or 15% on Kirkland. Any product the company found available at a lower price than the current one had to be marked down immediately, even if the supplier had already been paid at the previous price. The company existed for its members, not its shareholders. If the members prospered, the shareholders would prosper too.

That philosophy created periodic tension with Wall Street analysts who would have preferred higher margins and less reinvestment in price. Sinegal listened to them and kept doing exactly the same thing. When asked why he did not raise Kirkland margins to 20%, he answered that it would betray the member's trust. And that if you betrayed that trust just once, it would take decades to win it back. Forty years of results proved him right.



Costco: first warehouse

THE SUCCESSION: JELINEK, VACHRIS AND THE LONG-TERM CULTURE

Craig Jelinek succeeded Sinegal in 2012 without changing a comma of the model. He expanded international warehouses, pushed eCommerce more aggressively and kept associates' wages significantly above the industry. Ron Vachris became CEO in January 2024, only the third CEO in Costco's history. He had started as a forklift driver at Price Club in 1982 and had worked in practically every function of the company over 42 years. The transition was so smooth that the market barely noticed it.

That continuity of internal leadership is, in itself, a source of competitive advantage. Costco does not hire outside CEOs who bring new strategies and agendas foreign to the culture. Every leader has spent decades internalizing the same philosophy and understands the business from the inside with a depth no outsider can reach. It is the same logic that makes Costco's employee turnover, at 13% a year, the lowest in the retail sector.

SECTION 02

Business model

Costco's model can be described in one sentence: charge memberships so you can sell products with no margin. Everything else is the execution of that premise. But that execution, over 40 years, has created a series of competitive advantages that reinforce each other and are practically impossible to replicate.

The membership: the engine of everything

Costco runs two membership tiers. Gold Star costs $65 a year and gives warehouse access to the holder and one additional person. Executive costs $130 a year and includes 2% cashback on purchases (capped at $1,250 a year), plus extra benefits in services such as travel, insurance and delivery. The Executive member is the most valuable customer in the model: at the end of FY2026, Executive members (42.3 million, half of the total) accounted for 75.6% of Costco's worldwide sales.

An Executive member who spends $6,500 a year at Costco gets $130 of cashback, exactly the cost of the membership. For that customer, Costco is effectively free. And that customer, who has fully recovered the fee, has the strongest possible incentive to renew. A global renewal rate of 90%+ for 40 consecutive years is the evidence that this mechanism works exactly as designed.

The fee increase of September 2024 (from $60 to $65 for Gold Star and from $120 to $130 for Executive) was the first since 2017. Its impact is clearly visible in the numbers: membership income grew at double digits for much of FY2026. Even more relevant, the renewal rate did not fall materially, which confirms that members' perceived value comfortably exceeds the fee increase. Historically, Costco has been able to raise fees every 5-7 years without losing members because the savings on purchases far exceed the cost of the membership.

Kirkland Signature: one of the largest private labels in the world

Kirkland Signature was born in 1995 when Costco consolidated its scattered private labels under a single umbrella. The name comes from Kirkland, Washington, where Costco's original headquarters were. In three decades it has become one of the largest private labels in the US, with more than $86,000 million in annual sales, equivalent to a Fortune 50 company on its own.

Kirkland's philosophy is radically different from that of any other private label in retail. Costco does not develop cheaper versions of national products. It develops better versions at the lowest possible price. Kirkland olive oil consistently wins major international awards. Kirkland socks are made by the same company that produces those of premium brands. The promise is not "just as good but cheaper": it is "better or equal, and cheaper".

For Costco, Kirkland serves three strategic purposes at once. First: it generates a higher gross margin than branded products (15% vs 14%), which slightly improves the margin mix. Second: it strengthens bargaining power with brand manufacturers, because if P&G does not accept Costco's terms, Kirkland can replace them in that category. Third, and most important: it is the main reason members renew. There are Kirkland products for which there is no perceived substitute of equal quality at that price in any other channel.

The concentrated assortment: less is more

A conventional American supermarket operates with 40,000-50,000 SKUs. A Walmart Supercenter with more than 100,000. A Costco warehouse has between 3,500 and 4,000 SKUs in total. That restriction is not a limitation of the model: it is its most counterintuitive strength.

By buying huge volumes of each product, Costco can negotiate prices no retailer with a broader assortment can obtain. A manufacturer that gets into Costco knows it will sell millions of units of that specific SKU: that justifies discounts that would be impossible in the conventional channel. And from the member's point of view, the selection acts as a quality filter: if it is at Costco, it is because someone with good judgment checked that it was the best value in its category. That delegated trust reduces the consumer's decision fatigue and increases shopping frequency.

Product rotation, where Costco regularly introduces temporary SKUs and removes them when stock runs out, creates the famous "treasure hunt" experience. The member who finds a latest-generation OLED TV 30% below the market, or a case of wine from a boutique producer they have never seen before, has an extra reason to visit the warehouse often even without needing to restock basics. It is retail as entertainment, and it generates the highest customer satisfaction scores in the sector.

The distribution model: direct to the customer

Costco has no wholesale channel. It does not sell in supermarkets. It has no intermediary distributors. It buys directly from manufacturers or producers, in many cases skipping the entire traditional chain of intermediaries, and sells directly to the end member. That removes several layers of margin that in the conventional channel are split between distributor, wholesaler and retailer.

Costco's eCommerce has accelerated in recent years from a relatively low base. In the fourth quarter of FY2026 digital sales grew 19.5%, with web and app traffic up 30% year over year. The digital platform is integrated with the membership system: you cannot buy online without being a member, which ensures that the digital channel reinforces the membership model instead of cannibalizing it. Same-day delivery through Instacart, Uber Eats and DoorDash is growing faster than overall eCommerce, which indicates that digital convenience does not come at the expense of warehouse traffic.

Why can Costco compound for decades?

Costco does not compete like a traditional retailer. It competes as a membership ecosystem built on trust, scale and operating efficiency.

Its competitive advantage rests on four pillars:

- Membership renewal close to 93%
- Kirkland as a very high-quality private label
- Global scale with an ultra-efficient structure
- An exceptional cash cycle that allows it to collect before it sells

The result is a business:

- with low but extremely resilient margins,
- persistently high returns on capital,
- and an uncommon ability to grow without destroying profitability.

The real engine of ROIC



The secret of the model: collect before you sell

One of the least understood aspects of Costco is its extraordinary cash conversion cycle.

Costco:

- collects memberships in advance,
- turns inventory extremely fast,
- and pays suppliers after selling much of the merchandise.

In other words: Costco usually receives cash before it needs to pay it out.

The model does not depend on high margins. It depends on speed, scale and operating efficiency.

Operating KPIs

Metrics that explain the moat

Beyond revenue growth, there are certain indicators that help explain why Costco has been able to sustain extraordinary returns for decades.

- **Renewal Rate**

The renewal rate is around 93% in North America, one of the highest in global retail.

This turns memberships into recurring, predictable and extremely resilient revenue.

- **Executive Membership Mix**

The steady growth of Executive members is particularly important because these members:

- pay a more expensive membership,

- spend more in the stores,

- and show even higher retention levels.

This creates a virtuous circle:



- **Sales per Square Foot**

Costco generates some of the highest sales per square foot in the retail world.

The combination of high volume, limited inventory and fast turnover maximizes operating productivity at relatively low cost.

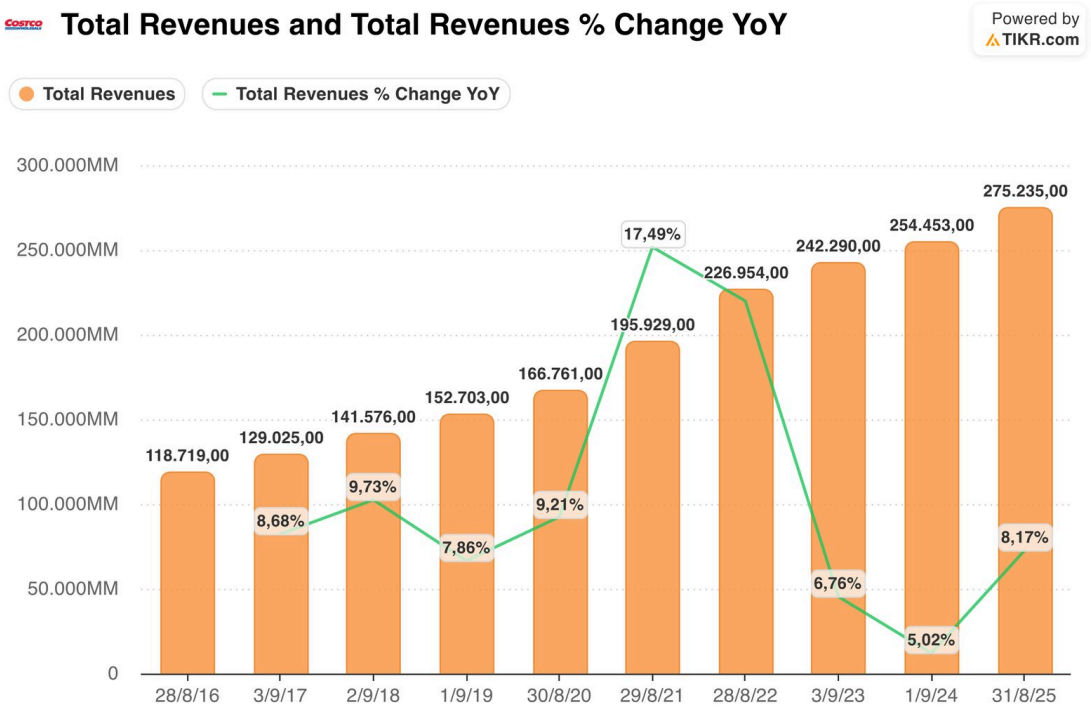
- **Comparable Sales**

Comparable sales keep growing even on historically high bases, reflecting consistent traffic and a value proposition that is hard to replicate.

SECTION 03

Business quality

Revenue



Costco's revenue path over the last decade is the clearest demonstration of high-quality organic growth in global retail. With no material acquisitions and no extraordinary financial levers, just warehouse expansion and a deeper membership model, revenue went from $129,000M in FY2017 to $303,000M in FY2026, a CAGR of ~10%. For a company of that scale, in a mature and competitive sector, that pace of growth is excellent.

The most relevant point is not the number itself but its consistency: Costco did not have a single year of falling comparable sales in the last 10 years. Not in 2020 (pandemic), nor in 2022-2023 (inflation and slowdown), nor in 2024 (normalization of consumption). That resilience reflects that when consumers tighten their budget, Costco is one of the last places where they cut back. Spending $130 on the annual membership acts as an anchor: once it is paid, the member has an incentive to recover it by shopping at Costco.

Latest results: FY2026 close

On September 24 Costco reported results for the fourth quarter and fiscal year 2026, which ended on August 30.

For the year, total revenue reached **$303,200 million, 10.1% more than in FY2025**, and net income came in at $9,200 million (+14%). In the fourth quarter comparable sales grew 9.4% (6.7% excluding gasoline and exchange rates), led by the United States (+10.7%). Digital sales grew 19.5% and web and app traffic 30%.

The membership numbers are still solid: 84.1 million paid memberships (+3.8%), 42.3 million of them Executive, which now account for 75.6% of sales. The renewal rate was 92.3% in the US and Canada and 89.8% worldwide. The latter still shows the slight decline I discuss in the risks: members who join through digital channels renew less than those who sign up at the warehouse.

Membership income grew 7.3% in the quarter, a logical slowdown after a full year with the effect of the September 2024 fee increase. Costco ended the year with 939 warehouses and expects to reach 967 by the end of FY2027.

Vertical analysis

Income Statement

Fiscal year Income Statement — % of revenue	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	3Y avg	5Y avg
Total Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods Sold	(86.7%)	(87.0%)	(87.0%)	(86.9%)	(87.1%)	(87.9%)	(87.6%)	(87.4%)	(87.2%)	(87.2%)	**(87.3%)**	**(87.4%)**
Gross Profit	**13.3%**	**13.0%**	**13.0%**	**13.1%**	**12.9%**	**12.1%**	**12.4%**	**12.6%**	**12.8%**	**12.8%**	**12.7%**	**12.6%**
Selling General & Admin Expenses	(10.0%)	(9.8%)	(9.8%)	(9.8%)	(9.4%)	(8.7%)	(8.9%)	(9.0%)	(9.1%)	(9.0%)	**(9.0%)**	**(8.9%)**
Total Operating Expenses	**(10.1%)**	**(9.8%)**	**(9.9%)**	**(9.8%)**	**(9.4%)**	**(8.7%)**	**(8.9%)**	**(9.0%)**	**(9.1%)**	**(9.0%)**	**(9.0%)**	**(8.9%)**
Operating Income	**3.2%**	**3.2%**	**3.1%**	**3.3%**	**3.5%**	**3.5%**	**3.5%**	**3.6%**	**3.8%**	**3.8%**	**3.7%**	**3.6%**
Interest Expense	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.1%)	(0.0%)	**(0.1%)**	**(0.1%)**
EBT Incl. Unusual Items	**3.1%**	**3.1%**	**3.1%**	**3.2%**	**3.4%**	**3.5%**	**3.5%**	**3.8%**	**3.9%**	**4.0%**	**3.9%**	**3.8%**
Income Tax Expense	(1.0%)	(0.9%)	(0.7%)	(0.8%)	(0.8%)	(0.8%)	(0.9%)	(0.9%)	(1.0%)	(1.0%)	**(1.0%)**	**(0.9%)**
Net Income	**2.1%**	**2.2%**	**2.4%**	**2.4%**	**2.6%**	**2.6%**	**2.6%**	**2.9%**	**2.9%**	**3.0%**	**3.0%**	**2.8%**
EBITDA	4.2%	4.2%	4.1%	4.2%	4.4%	4.3%	4.4%	4.5%	4.7%	4.7%	**4.6%**	**4.5%**

Source: author's analysis based on Tikr data.

For many investors used to the tech sector, Costco's margins might look disappointing: a gross margin of 12.8%, an operating margin of 3.8% and a net margin of 3.0% in FY2026. In any other company, those numbers would point to a business with little pricing power and a thin competitive cushion.

At Costco, the right reading is the opposite. Those low margins are not a weakness: they are the strategy. The company keeps them low because its promise to the member is exactly that: to charge as little as possible over cost. The 14% cap on national brands and 15% on Kirkland is not an aspiration: it is a written and historically respected policy. What funds the group's real profitability is the membership fees, which carry an estimated margin above 70%.

What is interesting is that, even with practically flat gross margins, operating margin went from 3.2% in FY2017 to 3.8% in FY2026 and net margin from 2.1% to 3.0%. The improvement comes from scale: overhead (SG&A) fell from 10% to 9% of sales. Every tenth of a point of margin on $300,000 million of sales is worth $300 million of extra profit.

Balance Sheet

Fiscal year	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	3Y avg	5Y avg
Balance Sheet — % of total assets												
Total Cash And Short Term Investments	**15.9%**	**17.8%**	**20.8%**	**23.9%**	**20.5%**	**17.2%**	**22.1%**	**16.0%**	**19.8%**	**23.9%**	**19.9%**	**19.8%**
Total Receivables	**3.9%**	**4.1%**	**3.4%**	**2.8%**	**3.0%**	**3.5%**	**3.3%**	**3.9%**	**4.2%**	**4.4%**	**4.2%**	**3.9%**
Inventory	27.1%	27.0%	25.1%	22.0%	24.0%	27.9%	24.1%	26.7%	23.5%	21.7%	**24.0%**	**24.8%**
Total Current Assets	**47.6%**	**49.7%**	**51.7%**	**50.6%**	**49.8%**	**51.0%**	**52.0%**	**49.0%**	**49.8%**	**52.3%**	**50.4%**	**50.8%**
Net Property Plant And Equipment	50.0%	48.2%	46.0%	45.3%	46.2%	45.3%	44.5%	47.4%	46.9%	44.6%	**46.3%**	**45.7%**
Goodwill	–	–	0.1%	1.8%	1.7%	1.5%	1.4%	0.0%	0.0%	1.1%	**0.4%**	**0.8%**
Total Assets	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Total Current Liabilities	**48.1%**	**48.8%**	**51.2%**	**44.7%**	**49.7%**	**49.9%**	**48.7%**	**50.8%**	**48.1%**	**49.4%**	**49.4%**	**49.4%**
Long-Term Debt	18.1%	15.9%	11.3%	13.5%	11.3%	10.1%	7.8%	8.3%	7.4%	4.4%	**6.7%**	**7.6%**
Capital Leases	–	–	0.8%	5.8%	6.1%	6.0%	5.4%	5.3%	5.0%	4.2%	**4.8%**	**5.2%**
Total Liabilities	**69.5%**	**67.9%**	**65.7%**	**66.3%**	**69.5%**	**67.8%**	**63.7%**	**66.2%**	**62.2%**	**59.8%**	**62.7%**	**63.9%**
Total Equity	**30.5%**	**32.1%**	**34.3%**	**33.7%**	**30.5%**	**32.2%**	**36.3%**	**33.8%**	**37.8%**	**40.2%**	**37.3%**	**36.1%**
Total Debt	**18.3%**	**16.1%**	**16.0%**	**20.0%**	**19.2%**	**17.0%**	**15.3%**	**14.2%**	**12.9%**	**11.4%**	**12.9%**	**14.2%**
Net Debt	2.4%	(1.7%)	(4.8%)	(4.0%)	(1.3%)	(0.2%)	(6.8%)	(1.7%)	(6.9%)	(12.5%)	**(7.0%)**	**(5.6%)**

Source: author's analysis based on Tikr data.

The first thing that stands out is the weight of fixed assets. Net Property, Plant & Equipment represents between 44% and 50% of total assets throughout the series (44.6% in FY2026), reflecting a model that requires large warehouses, mostly owned.

Cash and short-term investments reached 23.9% of assets in FY2026, the highest level of the decade, thanks to the cash generation of the membership model. Financial debt has been steadily losing weight: it went from 18.3% of assets in FY2017 to 11.4% in FY2026. At the same time, equity rose to 40.2%, also the highest in the series. It is a balance sheet that gets stronger as the model matures.

Cash Flow Statement

Fiscal year	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	3Y avg	5Y avg
Cash Flow — % of revenue												
Net Income	**2.1%**	**2.2%**	**2.4%**	**2.4%**	**2.6%**	**2.6%**	**2.6%**	**2.9%**	**2.9%**	**3.0%**	**3.0%**	**2.8%**
Total Depreciation & Amortization	**1.1%**	**1.0%**	**1.0%**	**1.0%**	**0.9%**	**0.8%**	**0.9%**	**0.9%**	**0.9%**	**0.9%**	**0.9%**	**0.9%**
Stock-Based Compensation	0.4%	0.4%	0.4%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	**0.3%**	**0.3%**
Cash from Operations	**5.2%**	**4.1%**	**4.2%**	**5.3%**	**4.6%**	**3.3%**	**4.6%**	**4.5%**	**4.8%**	**5.2%**	**4.8%**	**4.5%**
Capital Expenditure	(1.9%)	(2.1%)	(2.0%)	(1.7%)	(1.8%)	(1.7%)	(1.8%)	(1.9%)	(2.0%)	(2.1%)	**(2.0%)**	**(1.9%)**
Cash Acquisitions	–	–	–	(0.7%)	–	–	–	–	–	–	–	–
Cash from Investing	**(1.8%)**	**(2.1%)**	**(1.9%)**	**(2.3%)**	**(1.8%)**	**(1.7%)**	**(2.1%)**	**(1.7%)**	**(1.9%)**	**(2.1%)**	**(1.9%)**	**(1.9%)**
Total Debt Issued	**2.9%**	**0.1%**	**0.3%**	**2.4%**	**0.0%**	**0.0%**	**0.4%**	**0.6%**	**0.3%**	**0.3%**	**0.4%**	**0.3%**
Total Debt Repaid	**(1.9%)**	**(0.1%)**	**(0.1%)**	**(1.9%)**	**(0.1%)**	**(0.4%)**	**(0.5%)**	**(0.8%)**	**(0.4%)**	**(0.2%)**	**(0.5%)**	**(0.5%)**
Repurchase of Common Stock	(0.5%)	(0.4%)	(0.3%)	(0.3%)	(0.4%)	(0.4%)	(0.4%)	(0.4%)	(0.5%)	(0.4%)	**(0.4%)**	**(0.4%)**
Common Dividends Paid	(0.6%)	(0.5%)	(0.7%)	(0.9%)	(2.9%)	(0.7%)	(0.5%)	(0.9%)	(0.8%)	(0.8%)	**(0.8%)**	**(0.7%)**
Cash from Financing	**(2.5%)**	**(0.9%)**	**(0.8%)**	**(0.7%)**	**(3.3%)**	**(1.9%)**	**(1.1%)**	**(4.2%)**	**(1.4%)**	**(1.1%)**	**(2.2%)**	**(1.9%)**
Free Cash Flow	3.3%	2.0%	2.2%	3.6%	2.7%	1.5%	2.8%	2.6%	2.8%	3.1%	**2.8%**	**2.6%**

Source: author's analysis based on Tikr data.

Operating cash flow stays in a very stable range of 3.3% to 5.3% of sales, with FY2026 at 5.2%. Capex is around 2% of revenue (2.1% in FY2026), which leaves free cash flow of 3.1% of sales, among the highest of the decade.

The financing section shows Costco's capital policy: growing ordinary dividends, special dividends every few years (the last one, in FY2024, is clearly visible in the series) and modest buybacks of between 0.3% and 0.5% of sales.

Financial ratios

- **Growth**

Fiscal year	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	3Y avg	5Y avg
Growth												
Revenue growth		9.7%	7.9%	9.2%	17.5%	15.8%	6.8%	5.0%	8.2%	10.1%	**7.8%**	**9.2%**
EBIT growth		9.0%	5.7%	14.7%	25.0%	16.5%	7.5%	9.2%	11.8%	10.9%	**10.6%**	**11.2%**
Diluted EPS growth		16.6%	16.5%	9.2%	24.9%	16.6%	7.8%	16.9%	10.0%	14.0%	**13.6%**	**13.1%**
Change in diluted shares (dilution / buybacks)		0.2%	0.2%	0.2%	–	0.2%	(0.2%)	0.2%	–	(0.2%)	**0.0%**	**0.0%**

Source: author's analysis based on Tikr data.

Costco did not have a single year of falling sales in the last decade. Average growth over the last five years was 9.2% and FY2026 accelerated to 10.1%. EBIT grew somewhat faster than sales (10.6% on average over the last three years) and earnings per share 13.6%. The share count barely changes: Costco does not use buybacks as a lever to grow earnings per share.

- **Profitability**

Fiscal year	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	3Y avg	5Y avg
Profitability												
Gross margin	13.3%	13.0%	13.0%	13.1%	12.9%	12.1%	12.4%	12.6%	12.8%	12.8%	**12.7%**	**12.6%**
SG&A % revenue	10.0%	9.8%	9.8%	9.8%	9.4%	8.7%	8.9%	9.0%	9.1%	9.0%	**9.0%**	**8.9%**
R&D % revenue	–	–	–	–	–	–	–	–	–	–	–	–
EBIT margin	3.2%	3.2%	3.1%	3.3%	3.5%	3.5%	3.5%	3.6%	3.8%	3.8%	**3.7%**	**3.6%**
EBITDA margin (EBIT + D&A)	4.2%	4.2%	4.1%	4.2%	4.4%	4.3%	4.4%	4.5%	4.7%	4.7%	**4.6%**	**4.5%**
Net margin	2.1%	2.2%	2.4%	2.4%	2.6%	2.6%	2.6%	2.9%	2.9%	3.0%	**3.0%**	**2.8%**
Stock-based compensation % revenue	0.4%	0.4%	0.4%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	**0.3%**	**0.3%**
Effective tax rate	32.8%	28.4%	22.3%	24.4%	24.0%	24.6%	25.9%	24.4%	25.1%	24.7%	**24.7%**	**24.9%**

Source: author's analysis based on Tikr data.

Gross margin moves within a very narrow range (between 12.1% and 13.3%) because it is a company decision, not a market one. The improvement in profitability comes further down: EBIT margin rose from 3.2% to 3.8% and net margin from 2.1% to 3.0%. For a retailer of this size, gaining 60 basis points of operating margin in ten years without raising prices is a huge achievement.

- **Cash flow and reinvestment**

Fiscal year	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	3Y avg	5Y avg
Cash flow & reinvestment												
Cash from operations % revenue	5.2%	4.1%	4.2%	5.3%	4.6%	3.3%	4.6%	4.5%	4.8%	5.2%	**4.8%**	**4.5%**
FCF margin (TIKR FCF / revenue)	3.3%	2.0%	2.2%	3.6%	2.7%	1.5%	2.8%	2.6%	2.8%	3.1%	**2.8%**	**2.6%**
FCF conversion (FCF / net income)	157.7%	89.5%	91.8%	151.2%	107.2%	59.9%	107.2%	90.0%	96.8%	101.7%	**96.1%**	**91.1%**
Capex % revenue	1.9%	2.1%	2.0%	1.7%	1.8%	1.7%	1.8%	1.9%	2.0%	2.1%	**2.0%**	**1.9%**
D&A % revenue	1.1%	1.0%	1.0%	1.0%	0.9%	0.8%	0.9%	0.9%	0.9%	0.9%	**0.9%**	**0.9%**
Capex / D&A	1.8x	2.1x	2.0x	1.7x	2.0x	2.0x	2.1x	2.1x	2.3x	2.4x	**2.3x**	**2.2x**
D&A % beginning net PP&E		7.9%	7.6%	7.9%	7.1%	6.9%	7.2%	7.3%	7.3%	7.4%	**7.3%**	**7.2%**
Acquisitions % revenue	–	–	–	0.7%	–	–	–	–	–	–	–	–

Source: author's analysis based on Tikr data.

Costco converts practically all of its profit into cash: FCF conversion over net income averaged 96% over the last three years. Capex is about twice depreciation (2.4 times in FY2026), which shows that most of the investment is for growth, that is, opening new warehouses, and not for maintaining existing ones.

- **Working capital**

Fiscal year	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	3Y avg	5Y avg
Working capital												
Receivables days (DSO)	4.1	4.3	3.7	3.4	3.4	3.6	3.4	3.9	4.2	4.8	**4.3**	**4.0**
Inventory days (DIO)	32.1	32.7	31.3	30.8	30.4	32.8	28.6	30.6	27.6	26.7	**28.3**	**29.3**
Payables days (DPO)	31.3	33.3	32.1	35.7	34.8	32.7	30.1	31.9	30.1	31.2	**31.1**	**31.2**
Cash conversion cycle (DSO + DIO − DPO)	4.8	3.7	2.9	(1.5)	(1.1)	3.7	2.0	2.6	1.7	0.3	**1.5**	**2.1**
Deferred revenue % revenue	1.2%	1.1%	1.1%	1.1%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	**1.0%**	**1.0%**
Operating NWC % revenue	(4.6%)	(4.8%)	(4.9%)	(5.8%)	(5.6%)	(4.3%)	(4.7%)	(4.7%)	(5.0%)	(5.3%)	**(5.0%)**	**(4.8%)**

Source: author's analysis based on Tikr data.

Here lies one of the keys to the model. Costco sells its inventory in about 27 days and pays its suppliers in 31. In other words, **it collects before it pays**: the cash conversion cycle was practically zero in FY2026 and operating working capital is negative (-5.3% of sales). The more Costco grows, the more cash its suppliers free up.

- **Returns on capital**

Fiscal year	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	3Y avg	5Y avg
Returns on capital												
NOPAT = EBIT × (1 − normalized tax rate)	3,096	3,374	3,567	4,093	5,115	5,958	6,405	6,992	7,819	8,669	**7,827**	**7,169**
Invested capital = debt + equity − cash & ST inv.	11,959	12,421	13,384	16,486	17,310	20,504	20,360	22,427	23,815	24,683	**23,642**	**22,358**
ROIC = NOPAT / average invested capital		27.7%	27.6%	27.4%	30.3%	31.5%	31.3%	32.7%	33.8%	35.7%	**34.1%**	**33.0%**
ROIC incl. cash = NOPAT / average (debt + equity)		18.0%	16.8%	15.6%	17.3%	19.5%	19.1%	20.2%	21.5%	20.4%	**20.7%**	**20.1%**
Pre-tax ROIC = EBIT / average invested capital (reference)		36.8%	36.7%	36.4%	40.2%	41.8%	41.6%	43.4%	44.9%	47.5%	**45.3%**	**43.8%**
ROE = net income / average equity		25.9%	25.5%	23.3%	27.2%	30.2%	27.5%	30.3%	30.7%	28.4%	**29.8%**	**29.4%**
ROA = net income / average total assets		8.1%	8.5%	7.9%	8.7%	9.5%	9.5%	10.6%	11.0%	11.1%	**10.9%**	**10.3%**

Source: author's analysis based on Tikr data.

ROIC rose steadily from 27.7% in FY2018 to 35.7% in FY2026, the highest in the series. This is a very relevant data point: every year Costco invests more capital in new warehouses and, even so, the return on that capital keeps rising. If we include cash within invested capital, ROIC is 20.4%, still far above the cost of capital.

- **Leverage and liquidity**

Fiscal year	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	3Y avg	5Y avg
Leverage & liquidity												
Net debt (debt − cash & ST inv.)	880	(682)	(2,200)	(2,219)	(768)	(143)	(4,698)	(1,195)	(5,349)	(11,120)	**(5,888)**	**(4,501)**
Net debt / EBITDA	0.2x	(0.1x)	(0.4x)	(0.3x)	(0.1x)	(0.0x)	(0.4x)	(0.1x)	(0.4x)	(0.8x)	**(0.4x)**	**(0.4x)**
Interest coverage (EBIT / interest expense)	30.7x	28.2x	31.6x	34.0x	39.7x	50.1x	53.2x	54.9x	67.4x	79.4x	**67.2x**	**61.0x**
Debt / (debt + equity), book	37.5%	33.4%	31.7%	37.2%	38.7%	34.6%	29.6%	29.6%	25.4%	22.1%	**25.7%**	**28.3%**
Current ratio	0.99	1.02	1.01	1.13	1.00	1.02	1.07	0.97	1.03	1.06	**1.02**	**1.03**

Source: author's analysis based on Tikr data.

Costco has more cash than debt: net cash of $11,120 million in FY2026. Interest coverage reaches 79 times. A current ratio close to 1 is structural in retail and is not a problem at all: suppliers are paid with the sale of the merchandise itself.

- **Shareholder returns and valuation**

Fiscal year	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	3Y avg	5Y avg
Shareholder returns & market valuation (TIKR, at fiscal year end)												
Dividends + buybacks % FCF	34.9%	44.0%	46.4%	33.1%	122.1%	65.7%	33.1%	51.3%	44.4%	39.1%	**44.9%**	**46.7%**
EV / EBITDA	12.4x	17.2x	20.6x	21.9x	23.2x	23.8x	22.3x	34.1x	32.2x	28.7x	**31.7x**	**28.2x**
EV / revenue	0.5x	0.7x	0.8x	0.9x	1.0x	1.0x	1.0x	1.5x	1.5x	1.3x	**1.5x**	**1.3x**
P/E	25.9x	32.6x	35.4x	38.4x	39.8x	40.3x	38.3x	53.7x	51.7x	45.4x	**50.3x**	**45.9x**
FCF yield (FCF / market cap)	6.1%	2.7%	2.6%	3.9%	2.7%	1.5%	2.8%	1.7%	1.9%	2.2%	**1.9%**	**2.0%**

Source: author's analysis based on Tikr data.

On average Costco returns between 40% and 50% of its free cash flow through dividends and buybacks, with peaks in special dividend years.

The last part of the table is the one that worries me most. **The stock ended FY2026 at 45 times earnings and almost 29 times EBITDA**, when ten years ago it traded at 26 and 12 times respectively. The FCF yield is just 2.2%. The business has improved, no doubt, but the multiple has expanded much more than the business.

SECTION 04

Management and capital allocation

Ron Vachris, President & CEO

Ron Vachris became CEO on January 1, 2024, the third CEO in Costco's 41-year history. He had started his career in 1982 as a forklift driver at Price Club, Costco's predecessor. Over the following 42 years he worked in practically every function of the organization: warehouse, merchandising, regional management, real estate development, and from 2022 as president and COO. He is the third consecutive CEO promoted internally from the ground up.

That path is not anecdotal: it is the most direct expression of Costco's culture. The company has never hired an outside CEO because it understands that the model requires a deep, gut-level knowledge of the business that can only be gained through decades of practice. Vachris personally answers member emails, visits warehouses unannounced and keeps the same open management philosophy that Sinegal established in 1983.

His first years have coincided with a transition period that included the first fee increase since 2017, the acceleration of eCommerce and the most aggressive international expansion in the company's history. The numbers under his leadership are impeccable: no change in strategy, no corporate adventures, consistent execution of the same model that has generated extraordinary compound returns for four decades.

Gary Millerchip, CFO

Gary Millerchip became Costco's CFO in 2024, coming from Kroger, where he had been CFO for seven years. He is the first Costco CFO in many years to come from outside the organization, which the market noted with some curiosity. However, the quarters under his financial management show no deviation from Costco's historical discipline in capital allocation and investor communication.

On earnings calls, Millerchip has been explicit about priorities: keep the price promise to members, invest in digital technology and warehouse expansion, and return capital through ordinary and special dividends when the cash position allows. Costco paid a special dividend of $15 per share in January 2024, the fourth in its history, confirming the policy of returning excess cash without compromising operating flexibility.

Capital allocation

Costco's capital allocation is simple and consistent. The number one priority is to reinvest in the business: open 25 to 30 warehouses a year, improve logistics and develop the digital channel. With ROIC above 30%, each new warehouse is the best investment it can make.

Whatever is left is returned to shareholders through an ordinary dividend that rises every year, moderate buybacks and special dividends every few years, when cash builds up. Costco has never made large acquisitions or used debt to buy back shares, and that does not look likely to change.

SECTION 05

Competitive position

Industry analysis

The warehouse club format is a fraction of total US retail, but it is the fastest-growing segment with the highest customer loyalty in the whole sector. The value proposition is hard to attack from outside the format: it requires membership as a customer filter, purchasing scale to negotiate prices, and years of accumulated trust with consumers. No conventional retailer has managed to replicate the model successfully.

The competitive structure of the US warehouse club market is stable and oligopolistic: Costco clearly dominates, Sam's Club (Walmart) is the second operator and BJ's Wholesale Club operates mainly in the eastern US as the third player. The three companies coexist with some differentiation in positioning, and the market has enough demand to sustain all of them without direct competition significantly destroying margins.

Main competitors

Walmart (WMT, NASDAQ)

Walmart competes with Costco for the same price-conscious consumer, but from two different angles. At the corporate level, Walmart means convenience and a full assortment at a low price; Costco means volume, pre-selection (a smaller assortment) and the membership experience. The middle-to-upper-income American consumer can be a customer of both at the same time: Costco for the big weekly shop, Walmart for topping up specific items.

The direct threat to Costco's warehouse model comes specifically from Sam's Club, Walmart's membership subsidiary. With 600 clubs in 44 states and more than $90,000M in sales in FY2025, Sam's Club is the competitor that most resembles Costco in format and target customer. It has all of Walmart's logistics infrastructure behind it, which allows it to offer competitive prices and a more advanced digital experience (Scan & Go is seen as better than Costco's equivalent). Comparable sales growth of 5.9% in FY2025 is solid, and adoption of the Plus membership keeps growing. The difference is not one of model but of perceived quality: Kirkland vs Member's Mark. Sam's Club's private label has improved materially in recent years, especially in fresh food and in the digital channel, but the American consumer's perception that Costco offers a superior selection remains strong. The gap is closing, but Costco keeps the edge in overall perceived value.

In the Walmart report I look at Sam's Club in more detail.

BJ's Wholesale Club (BJ, NYSE)

BJ's Wholesale operates 245 clubs mainly in the eastern US and has a differentiated value proposition: it accepts manufacturer coupons (something Costco and Sam's Club do not), it has a broader assortment than Costco and a store experience closer to a conventional supermarket. Its membership income grew 10.9% in the latest available quarter, with a renewal rate of ~90%.

BJ's does not threaten Costco's leadership nationally, but in its specific geographic markets it competes fiercely for the same consumer.

Amazon (AMZN, NASDAQ)

Amazon competes with Costco in subtler ways than direct competition for the same customer. Prime is, in many ways, the digital equivalent of the Costco membership: an annual fee that creates loyalty and gives access to preferential prices and services. With 200+ million Prime members worldwide, Amazon has more paying members than Costco, but the value proposition is radically different: Prime is convenience and delivery speed, Costco is price and quality in volume.

Amazon's risk to Costco is real in non-perishable categories and electronics, where Amazon's price can compete with Costco's without the need to travel. Where Amazon cannot compete is in the experience of buying fresh perishables, in the warehouse treasure hunt and in Kirkland, which has no equivalent in any digital channel. The coexistence of both models in the same consumer's wallet is more common than full substitution.

Comparison vs. competitors

The comparison below puts Costco's numbers in perspective against its three main competitive references: BJ's Wholesale Club, Walmart and Amazon. The metrics cover revenue growth, margins, liquidity, solvency, activity and profitability, with annual data from FY2016 to FY2025.

An important clarification before reading the numbers: Amazon is included because it competes with Costco for the same consumer in specific categories and because its membership model (Prime) is the closest digital analogue to Costco's. However, the comparison is not clean. Amazon is not a pure retailer: it is a conglomerate where AWS (Amazon Web Services) generates most of the group's operating margin, with margins of 30% to 37% that have nothing to do with the retail business. When you see Amazon's consolidated operating margin of 11.16% for FY2025, that number includes AWS, digital advertising and other very high-margin segments that subsidize the retail operation, which on its own would be significantly less profitable. Comparing that 11.16% with Costco's 3.77% as if they were equivalent businesses would be an analytical mistake. Amazon's data is shown at the consolidated level because it is the only public information available, and it should be read with that caveat in mind.

Revenues



REVENUES

% Change YoY	28/08/2016	03/09/2017	02/09/2018	01/09/2019	30/08/2020	29/08/2021	28/08/2022	03/09/2023	01/09/2024	31/08/2025
COSTCO WHOLESALE CORPORATION	-	8,7%	9,7%	7,9%	9,2%	17,5%	15,8%	6,8%	5,0%	8,2%
BJ'S WHOLESALE CLUB HOLDINGS, INC.	-	3,3%	2,0%	1,4%	17,0%	8,0%	15,9%	3,4%	2,7%	4,7%
WALMART INC.	-	3,0%	2,8%	1,9%	6,7%	2,4%	6,7%	6,0%	5,1%	4,7%
AMAZON.COM, INC.	-	30,8%	30,9%	20,5%	37,6%	21,7%	9,4%	11,8%	11,0%	12,4%

In terms of revenue growth, Costco is the clear leader within physical retail. Its revenue CAGR over the decade comfortably exceeds BJ's (~4-8% vs 2-4% for BJ's) and Walmart (~3-6%). In its years of strongest expansion, FY2021 and FY2022, Costco grew 17.5% and 15.8% respectively, rates no physical retailer of similar scale can show. In FY2025, Costco grew 8.2% against 4.7% for BJ's and 4.7% for Walmart. Amazon is the only competitor with historically higher growth rates (30%+ in the first part of the decade), although its model is radically different from the warehouse club and its slowdown towards 11-12% in recent years narrows the gap. The consistency of Costco's growth, without a single negative year in the series, is its most solid differentiating feature against physical competitors.

Margins

MARGINS

% Gross Margins	28/08/2016	03/09/2017	02/09/2018	01/09/2019	30/08/2020	29/08/2021	28/08/2022	03/09/2023	01/09/2024	31/08/2025
COSTCO WHOLESALE CORPORATION	13,32%	13,29%	13,01%	12,98%	13,09%	12,88%	12,15%	12,42%	12,61%	12,84%
BJ'S WHOLESALE CLUB HOLDINGS, INC.	17,23%	17,57%	18,15%	18,40%	19,31%	18,47%	17,77%	18,24%	18,36%	18,64%
WALMART INC.	25,65%	25,37%	25,10%	24,69%	24,83%	25,10%	24,14%	24,38%	24,85%	24,93%
AMAZON.COM, INC.	35,09%	37,07%	40,25%	40,99%	39,57%	42,03%	43,81%	46,98%	48,85%	50,29%

% Operating Margin	28/08/2016	03/09/2017	02/09/2018	01/09/2019	30/08/2020	29/08/2021	28/08/2022	03/09/2023	01/09/2024	31/08/2025
COSTCO WHOLESALE CORPORATION	3,09%	3,19%	3,16%	3,10%	3,26%	3,47%	3,49%	3,51%	3,65%	3,77%
BJ'S WHOLESALE CLUB HOLDINGS, INC.	1,75%	1,80%	2,36%	2,67%	4,16%	3,81%	3,82%	4,01%	3,81%	3,82%
WALMART INC.	4,69%	4,18%	4,27%	4,10%	4,03%	4,53%	4,01%	4,17%	4,31%	4,18%
AMAZON.COM, INC.	3,08%	2,31%	5,33%	5,18%	5,93%	5,30%	2,60%	6,41%	10,75%	11,16%

% Net Income Margin	28/08/2016	03/09/2017	02/09/2018	01/09/2019	30/08/2020	29/08/2021	28/08/2022	03/09/2023	01/09/2024	31/08/2025
COSTCO WHOLESALE CORPORATION	1,98%	2,08%	2,21%	2,40%	2,40%	2,56%	2,57%	2,60%	2,90%	2,94%
BJ'S WHOLESALE CLUB HOLDINGS, INC.	0,36%	0,39%	0,98%	1,42%	2,73%	2,56%	2,66%	2,62%	2,61%	2,70%
WALMART INC.	2,81%	1,97%	1,30%	2,84%	2,42%	2,39%	1,91%	2,39%	2,85%	3,07%
AMAZON.COM, INC.	1,74%	1,71%	4,33%	4,13%	5,53%	7,10%	(0,53%)	5,29%	9,29%	10,83%

Costco's gross margin (12.84% in FY2025) is the lowest in the group. BJ's operates at 18.64%, Walmart at 24.93% and Amazon at 50.29%. That Costco has the lowest gross margin and at the same time the highest-quality cash flow in the group is not a contradiction: it is the evidence that the model works exactly as designed. The real profitability lies in the memberships, not in the spread on the product.

In operating margin, Costco (3.77% in FY2025) practically ties with BJ's (3.82%) and stays below Walmart (4.18%) and Amazon (11.16%). However, Costco's path is the cleanest in the group: a consistent improvement from 3.09% in FY2016 without any year of material deterioration. Amazon shows more volatility in operating margins, with years of significant contraction, while Walmart stays within 4%. Costco's net margin (2.94% in FY2025) is also the most consistent and rising among the physical retailers: above BJ's (2.70%) and practically equal to Walmart's (3.07%).

Liquidity ratios

RATIOS

LIQUIDITY										
Current [Current Assets / Current Liabilities]	28/08/2016	03/09/2017	02/09/2018	01/09/2019	30/08/2020	29/08/2021	28/08/2022	03/09/2023	01/09/2024	31/08/2025
COSTCO WHOLESALE CORPORATION	0,98x	0,99x	1,02x	1,01x	1,13x	1,00x	1,02x	1,07x	0,97x	1,03x
BJ'S WHOLESALE CLUB HOLDINGS, INC.	1,05x	0,91x	0,85x	0,75x	0,72x	0,76x	0,67x	0,73x	0,74x	0,75x
WALMART INC.	0,86x	0,76x	0,80x	0,79x	0,97x	0,93x	0,82x	0,83x	0,82x	0,79x
AMAZON.COM, INC.	1,04x	1,04x	1,10x	1,10x	1,05x	1,14x	0,94x	1,05x	1,06x	1,05x

Quick [(Cash + Marketable securities + Receivables) / Current Liabilities]	28/08/2016	03/09/2017	02/09/2018	01/09/2019	30/08/2020	29/08/2021	28/08/2022	03/09/2023	01/09/2024	31/08/2025
COSTCO WHOLESALE CORPORATION	0,38x	0,41x	0,45x	0,47x	0,60x	0,47x	0,42x	0,52x	0,39x	0,50x
BJ'S WHOLESALE CLUB HOLDINGS, INC.	0,17x	0,15x	0,14x	0,13x	0,11x	0,11x	0,11x	0,11x	0,12x	0,11x
WALMART INC.	0,19x	0,16x	0,18x	0,20x	0,26x	0,26x	0,18x	0,20x	0,20x	0,20x
AMAZON.COM, INC.	0,78x	0,74x	0,84x	0,86x	0,86x	0,90x	0,69x	0,81x	0,84x	0,84x

Cash [(Cash + Marketable securities) / Current Liabilities]	28/08/2016	03/09/2017	02/09/2018	01/09/2019	30/08/2020	29/08/2021	28/08/2022	03/09/2023	01/09/2024	31/08/2025
COSTCO WHOLESALE CORPORATION	0,30x	0,33x	0,36x	0,41x	0,54x	0,41x	0,35x	0,45x	0,31x	0,41x
BJ'S WHOLESALE CLUB HOLDINGS, INC.	0,03x	0,02x	0,02x	0,02x	0,02x	0,02x	0,01x	0,01x	0,01x	0,02x
WALMART INC.	0,10x	0,09x	0,10x	0,12x	0,19x	0,17x	0,09x	0,11x	0,09x	0,10x
AMAZON.COM, INC.	0,59x	0,54x	0,60x	0,63x	0,67x	0,68x	0,45x	0,53x	0,56x	0,56x

All four competitors operate with current ratios close to or below 1x, which is structural in retail and not a sign of weakness: current liabilities include large volumes of payables that are funded by operating cash flow before they fall due. Costco (1.03x in FY2025) is in line with Amazon (1.05x) and above Walmart (0.79x) and BJ's (0.75x). Where Costco clearly stands out is in the Cash Ratio: 0.41x against

0.02x for BJ's and 0.10x for Walmart. That difference reflects the structural cash position created by collecting memberships in advance, a funding advantage no physical-format competitor can replicate without an equivalent membership model.

Solvency ratios

SOLVENCY										
Long-term debt to equity [Total long term debt / Total Equity]	**28/08/2016**	**03/09/2017**	**02/09/2018**	**01/09/2019**	**30/08/2020**	**29/08/2021**	**28/08/2022**	**03/09/2023**	**01/09/2024**	**31/08/2025**
COSTCO WHOLESALE CORPORATION	32,93%	59,33%	49,51%	35,25%	57,36%	57,05%	50,12%	36,34%	40,30%	32,83%
BJ'S WHOLESALE CLUB HOLDINGS, INC.	-586,36%	-245,45%	-801,54%	-6217,46%	900,14%	415,60%	242,07%	172,18%	134,04%	109,06%
WALMART INC.	52,96%	45,79%	63,58%	79,57%	66,66%	57,91%	64,81%	62,65%	55,43%	52,55%
AMAZON.COM, INC.	78,89%	136,87%	76,11%	101,84%	93,99%	88,68%	100,53%	70,45%	48,26%	39,11%
Debt to Equity [Total debt / Total Equity]	**28/08/2016**	**03/09/2017**	**02/09/2018**	**01/09/2019**	**30/08/2020**	**29/08/2021**	**28/08/2022**	**03/09/2023**	**01/09/2024**	**31/08/2025**
COSTCO WHOLESALE CORPORATION	41,85%	60,10%	50,19%	46,48%	59,27%	63,10%	52,82%	42,05%	42,12%	34,07%
BJ'S WHOLESALE CLUB HOLDINGS, INC.	-592,12%	-266,79%	-926,65%	-7077,11%	1022,74%	457,95%	259,16%	183,19%	144,91%	119,14%
WALMART INC.	56,46%	51,24%	66,85%	88,97%	72,45%	63,13%	72,23%	68,90%	60,44%	58,23%
AMAZON.COM, INC.	105,85%	159,18%	79,26%	124,93%	111,36%	100,34%	110,88%	79,96%	54,29%	43,32%
Debt to Capital [Total debt / Total Capital]	**28/08/2016**	**03/09/2017**	**02/09/2018**	**01/09/2019**	**30/08/2020**	**29/08/2021**	**28/08/2022**	**03/09/2023**	**01/09/2024**	**31/08/2025**
COSTCO WHOLESALE CORPORATION	29,50%	37,54%	33,42%	31,73%	37,21%	38,69%	34,56%	29,60%	29,64%	25,41%
BJ'S WHOLESALE CLUB HOLDINGS, INC.	120,32%	159,96%	112,05%	101,43%	91,09%	82,08%	72,16%	64,69%	59,17%	54,37%
WALMART INC.	36,09%	33,88%	40,07%	47,08%	42,01%	38,70%	41,94%	40,79%	37,67%	36,80%
AMAZON.COM, INC.	51,42%	61,42%	44,21%	55,54%	52,69%	50,08%	52,58%	44,43%	35,19%	30,23%
Debt to Assets [Total debt / Total Assets]	**28/08/2016**	**03/09/2017**	**02/09/2018**	**01/09/2019**	**30/08/2020**	**29/08/2021**	**28/08/2022**	**03/09/2023**	**01/09/2024**	**31/08/2025**
COSTCO WHOLESALE CORPORATION	15,56%	18,32%	16,11%	15,96%	19,95%	19,25%	17,00%	15,27%	14,25%	12,89%
BJ'S WHOLESALE CLUB HOLDINGS, INC.	63,61%	83,92%	58,00%	72,98%	60,35%	52,36%	42,72%	40,02%	37,89%	34,86%
WALMART INC.	22,87%	20,25%	24,28%	30,68%	25,12%	23,69%	24,94%	24,72%	22,64%	21,72%
AMAZON.COM, INC.	24,48%	33,59%	21,22%	34,42%	32,38%	32,98%	35,00%	30,58%	24,84%	21,77%
Financial Leverage [Total Assets / Total Equity]	**28/08/2016**	**03/09/2017**	**02/09/2018**	**01/09/2019**	**30/08/2020**	**29/08/2021**	**28/08/2022**	**03/09/2023**	**01/09/2024**	**31/08/2025**
COSTCO WHOLESALE CORPORATION	2,69x	3,28x	3,12x	2,91x	2,97x	3,28x	3,11x	2,75x	2,96x	2,64x
BJ'S WHOLESALE CLUB HOLDINGS, INC.	-9,31x	-3,18x	-16,03x	-96,98x	16,95x	8,75x	6,07x	4,58x	3,82x	3,42x
WALMART INC.	2,47x	2,53x	2,75x	2,90x	2,88x	2,66x	2,90x	2,79x	2,67x	2,68x
AMAZON.COM, INC.	4,32x	4,74x	3,73x	3,63x	3,44x	3,04x	3,17x	2,61x	2,19x	1,99x
Debt to EBITDA [Total debt / EBITDA]	**28/08/2016**	**03/09/2017**	**02/09/2018**	**01/09/2019**	**30/08/2020**	**29/08/2021**	**28/08/2022**	**03/09/2023**	**01/09/2024**	**31/08/2025**
COSTCO WHOLESALE CORPORATION	1,05x	1,21x	1,11x	1,16x	1,57x	1,33x	1,11x	1,00x	0,86x	0,78x
BJ'S WHOLESALE CLUB HOLDINGS, INC.	5,21x	6,98x	4,00x	7,55x	4,03x	3,64x	2,89x	2,60x	2,57x	2,36x
WALMART INC.	1,38x	1,32x	1,63x	2,24x	1,88x	1,58x	1,71x	1,61x	1,40x	1,40x
AMAZON.COM, INC.	1,66x	2,83x	1,24x	2,13x	2,16x	2,34x	2,93x	1,89x	1,28x	1,22x
Interest Coverage	**28/08/2016**	**03/09/2017**	**02/09/2018**	**01/09/2019**	**30/08/2020**	**29/08/2021**	**28/08/2022**	**03/09/2023**	**01/09/2024**	**31/08/2025**
COSTCO WHOLESALE CORPORATION	27,61x	30,68x	28,18x	31,58x	33,97x	39,72x	50,07x	53,16x	54,94x	67,42x
BJ'S WHOLESALE CLUB HOLDINGS, INC.	1,51x	1,31x	2,21x	3,37x	8,00x	12,10x	16,56x	12,59x	15,41x	19,28x
WALMART INC.	9,62x	8,99x	9,36x	8,26x	9,74x	13,01x	11,53x	10,07x	10,76x	10,66x
AMAZON.COM, INC.	8,65x	4,84x	8,77x	9,09x	13,90x	13,75x	5,64x	11,58x	28,51x	35,17x
Fixed Charge Coverage [Earnings before taxes, interest and lease payments / Interest and Lease Payments]	**28/08/2016**	**03/09/2017**	**02/09/2018**	**01/09/2019**	**30/08/2020**	**29/08/2021**	**28/08/2022**	**03/09/2023**	**01/09/2024**	**31/08/2025**
COSTCO WHOLESALE CORPORATION	3,78x	2,70x	35,95x	49,24x	2,76x	-257,52x	4,37x	7,54x	5,35x	10,34x
BJ'S WHOLESALE CLUB HOLDINGS, INC.	1,16x	1,13x	1,11x	1,23x	1,41x	2,75x	1,53x	1,67x	1,86x	2,50x
WALMART INC.	5,64x	1,99x	5,27x	3,49x	3,83x	2,78x	4,51x	3,13x	5,61x	5,94x
AMAZON.COM, INC.	1,97x	1,65x	2,42x	2,18x	2,24x	2,20x	1,28x	2,08x	5,05x	6,22x

Costco has the most conservative debt structure in the group. Its Debt/Assets ratio stands at 12.89% in FY2025, the lowest level of the decade and well below Walmart (21.72%), Amazon (21.77%) and BJ's (34.86%). Costco's Debt to EBITDA (0.78x) is the lowest in the group, which means the company could repay all its debt in less than a year with its current EBITDA. Walmart is at 1.40x, Amazon at 1.22x and BJ's at 2.36x. Where Costco's leadership is most striking is in Interest Coverage: 67.42x in FY2025, against 10.66x for Walmart, 35.17x for Amazon and 19.28x for BJ's. That level of coverage is extraordinary for a company of Costco's scale and reflects that financial debt has lost weight on the balance sheet while EBIT has grown consistently.

Performance ratios

PERFORMANCE										
Cash flow to Revenue [CFO / Net revenue]	**28/08/2016**	**03/09/2017**	**02/09/2018**	**01/09/2019**	**30/08/2020**	**29/08/2021**	**28/08/2022**	**03/09/2023**	**01/09/2024**	**31/08/2025**
COSTCO WHOLESALE CORPORATION	2,77%	5,21%	4,08%	4,16%	5,31%	4,57%	3,26%	4,57%	4,46%	4,84%
BJ'S WHOLESALE CLUB HOLDINGS, INC.	2,41%	1,65%	3,28%	2,69%	5,63%	4,99%	4,08%	3,60%	4,39%	4,80%
WALMART INC.	6,52%	5,66%	5,40%	4,82%	6,45%	4,22%	4,72%	5,51%	5,35%	5,83%
AMAZON.COM, INC.	12,65%	10,33%	13,19%	13,73%	17,11%	9,86%	9,10%	14,78%	18,16%	19,46%
Cash return on Assets [CFO / Average total assets]	**28/08/2016**	**03/09/2017**	**02/09/2018**	**01/09/2019**	**30/08/2020**	**29/08/2021**	**28/08/2022**	**03/09/2023**	**01/09/2024**	**31/08/2025**
COSTCO WHOLESALE CORPORATION	9,93%	18,50%	14,14%	14,00%	15,95%	15,11%	11,52%	16,04%	16,24%	17,30%
BJ'S WHOLESALE CLUB HOLDINGS, INC.	9,20%	6,42%	13,18%	6,74%	16,05%	14,67%	12,41%	10,77%	12,75%	13,71%
WALMART INC.	15,93%	13,86%	12,66%	10,68%	14,29%	9,88%	11,86%	14,15%	13,97%	14,60%
AMAZON.COM, INC.	20,63%	13,99%	18,89%	17,10%	20,57%	11,02%	10,10%	16,09%	18,54%	17,05%
Cash return on Equity [CFO / Average Equity]	**28/08/2016**	**03/09/2017**	**02/09/2018**	**01/09/2019**	**30/08/2020**	**29/08/2021**	**28/08/2022**	**03/09/2023**	**01/09/2024**	**31/08/2025**
COSTCO WHOLESALE CORPORATION	26,69%	60,71%	44,07%	40,79%	47,37%	49,55%	35,80%	44,17%	48,00%	45,72%
BJ'S WHOLESALE CLUB HOLDINGS, INC.	-85,66%	-20,40%	-211,35%	-653,55%	271,99%	128,32%	75,29%	49,28%	48,76%	46,87%
WALMART INC.	39,33%	35,06%	34,85%	30,97%	41,21%	26,31%	34,34%	39,45%	37,30%	39,15%
AMAZON.COM, INC.	89,20%	66,28%	70,55%	62,06%	70,73%	33,51%	32,01%	42,08%	40,52%	33,94%

Activity ratios

ACTIVITY										
Inventory turnover [COGS / Average inventory]	**28/08/2016**	**03/09/2017**	**02/09/2018**	**01/09/2019**	**30/08/2020**	**29/08/2021**	**28/08/2022**	**03/09/2023**	**01/09/2024**	**31/08/2025**
COSTCO WHOLESALE CORPORATION	11,47x	11,90x	11,80x	11,85x	12,26x	12,90x	12,41x	12,28x	12,60x	13,05x
BJ'S WHOLESALE CLUB HOLDINGS, INC.	9,91x	10,25x	10,28x	10,09x	10,89x	11,10x	12,12x	11,52x	11,29x	11,39x
WALMART INC.	8,39x	8,60x	8,75x	8,90x	9,40x	8,46x	8,20x	8,79x	9,19x	9,29x
AMAZON.COM, INC.	7,70x	8,14x	8,38x	8,79x	10,53x	9,65x	8,62x	9,00x	9,66x	9,83x
Days of inventory on hand (DOH) [Number of days in period / inventory turnover]	**28/08/2016**	**03/09/2017**	**02/09/2018**	**01/09/2019**	**30/08/2020**	**29/08/2021**	**28/08/2022**	**03/09/2023**	**01/09/2024**	**31/08/2025**
COSTCO WHOLESALE CORPORATION	32 días	31 días	31 días	31 días	30 días	28 días	29 días	30 días	29 días	28 días
BJ'S WHOLESALE CLUB HOLDINGS, INC.	37 días	36 días	36 días	36 días	34 días	33 días	30 días	32 días	32 días	32 días
WALMART INC.	43 días	42 días	42 días	41 días	39 días	43 días	45 días	42 días	40 días	39 días
AMAZON.COM, INC.	47 días	45 días	44 días	42 días	35 días	38 días	42 días	41 días	38 días	37 días
Receivables turnover [Revenue / Average receivables]	**28/08/2016**	**03/09/2017**	**02/09/2018**	**01/09/2019**	**30/08/2020**	**29/08/2021**	**28/08/2022**	**03/09/2023**	**01/09/2024**	**31/08/2025**
COSTCO WHOLESALE CORPORATION	94,82x	90,10x	84,83x	99,48x	107,59x	108,67x	101,27x	106,04x	93,51x	85,93x
BJ'S WHOLESALE CLUB HOLDINGS, INC.	74,29x	66,86x	66,94x	63,92x	89,34x	95,62x	80,56x	85,06x	73,93x	84,88x
WALMART INC.	83,27x	89,12x	81,87x	83,38x	85,81x	69,17x	77,06x	73,68x	68,27x	63,83x
AMAZON.COM, INC.	16,31x	19,76x	18,48x	16,70x	19,70x	18,42x	14,20x	13,49x	13,90x	12,73x
Days of sales outsanding (DSO) [Number of days in period / Receivables turnover]	**28/08/2016**	**03/09/2017**	**02/09/2018**	**01/09/2019**	**30/08/2020**	**29/08/2021**	**28/08/2022**	**03/09/2023**	**01/09/2024**	**31/08/2025**
COSTCO WHOLESALE CORPORATION	4 días	4 días	4 días	4 días	3 días	3 días	4 días	3 días	4 días	4 días
BJ'S WHOLESALE CLUB HOLDINGS, INC.	5 días	5 días	5 días	6 días	4 días	4 días	5 días	4 días	5 días	4 días
WALMART INC.	4 días	4 días	4 días	4 días	4 días	5 días	5 días	5 días	5 días	6 días
AMAZON.COM, INC.	22 días	18 días	20 días	22 días	19 días	20 días	26 días	27 días	26 días	29 días
Payables turnover [Purchases / Average trade payables]	**28/08/2016**	**03/09/2017**	**02/09/2018**	**01/09/2019**	**30/08/2020**	**29/08/2021**	**28/08/2022**	**03/09/2023**	**01/09/2024**	**31/08/2025**
COSTCO WHOLESALE CORPORATION	0,00x	13,09x	11,93x	11,63x	11,28x	11,34x	11,90x	11,94x	12,16x	12,21x
BJ'S WHOLESALE CLUB HOLDINGS, INC.	0,00x	14,26x	13,61x	13,46x	14,17x	12,97x	13,88x	13,79x	13,78x	13,67x
WALMART INC.	0,00x	8,55x	8,28x	8,40x	8,76x	8,44x	8,51x	8,84x	8,89x	8,84x
AMAZON.COM, INC.	0,00x	3,89x	3,85x	3,96x	3,95x	3,72x	3,67x	3,69x	3,65x	3,33x
Number of days of payables [Number of days in period / Payables turnover]	**28/08/2016**	**03/09/2017**	**02/09/2018**	**01/09/2019**	**30/08/2020**	**29/08/2021**	**28/08/2022**	**03/09/2023**	**01/09/2024**	**31/08/2025**
COSTCO WHOLESALE CORPORATION	0 días	28 días	31 días	31 días	32 días	32 días	31 días	31 días	30 días	30 días
BJ'S WHOLESALE CLUB HOLDINGS, INC.	0 días	26 días	27 días	27 días	26 días	28 días	26 días	26 días	26 días	27 días
WALMART INC.	0 días	43 días	44 días	43 días	42 días	43 días	43 días	41 días	41 días	41 días
AMAZON.COM, INC.	0 días	94 días	95 días	92 días	92 días	98 días	99 días	99 días	100 días	109 días
Fixed Asset turnover [Revenue / Average net fixed assets]	**28/08/2016**	**03/09/2017**	**02/09/2018**	**01/09/2019**	**30/08/2020**	**29/08/2021**	**28/08/2022**	**03/09/2023**	**01/09/2024**	**31/08/2025**
COSTCO WHOLESALE CORPORATION	6,97x	7,10x	7,19x	7,31x	6,62x	7,16x	7,82x	7,89x	7,69x	7,62x
BJ'S WHOLESALE CLUB HOLDINGS, INC.	16,17x	16,81x	17,37x	4,68x	5,40x	5,42x	5,55x	5,37x	5,13x	4,94x
WALMART INC.	4,26x	4,36x	4,62x	4,12x	5,09x	5,09x	5,13x	4,97x	4,87x	4,54x
AMAZON.COM, INC.	4,67x	3,64x	3,77x	2,87x	2,56x	2,17x	2,03x	2,08x	1,94x	1,62x
Total Asset turnover [Revenue / Average total assets]	**28/08/2016**	**03/09/2017**	**02/09/2018**	**01/09/2019**	**30/08/2020**	**29/08/2021**	**28/08/2022**	**03/09/2023**	**01/09/2024**	**31/08/2025**
COSTCO WHOLESALE CORPORATION	3,58x	3,55x	3,47x	3,36x	3,00x	3,31x	3,54x	3,51x	3,64x	3,57x
BJ'S WHOLESALE CLUB HOLDINGS, INC.	3,82x	3,90x	4,02x	2,50x	2,85x	2,94x	3,04x	2,99x	2,90x	2,86x
WALMART INC.	2,44x	2,45x	2,35x	2,22x	2,21x	2,34x	2,51x	2,57x	2,61x	2,51x
AMAZON.COM, INC.	1,63x	1,35x	1,43x	1,25x	1,20x	1,12x	1,11x	1,09x	1,02x	0,88x

Costco's inventory turnover (13.05x in FY2025, equivalent to only 28 days of inventory on hand) is the highest in the group and has improved consistently over the decade. BJ's turns at 11.39x (32 days), Walmart at 9.29x (39 days) and Amazon at 9.83x (37 days). That Costco turns its inventory faster with only 3,500-4,000 SKUs than competitors with catalogs of 40,000-100,000 products is the empirical evidence of the power of the pre-selection model. Costco's Fixed Asset Turnover (7.62x) also leads the group, well ahead of Walmart (4.54x), Amazon (1.62x) and BJ's (4.94x), which indicates that Costco gets more revenue per dollar of fixed assets than any competitor analyzed.

Profitability ratios

PROFITABILITY										
Operating ROA [Operating Income / Average Total Assets]	**28/08/2016**	**03/09/2017**	**02/09/2018**	**01/09/2019**	**30/08/2020**	**29/08/2021**	**28/08/2022**	**03/09/2023**	**01/09/2024**	**31/08/2025**
COSTCO WHOLESALE CORPORATION	11%	11%	11%	10%	10%	11%	12%	12%	13%	13%
BJ'S WHOLESALE CLUB HOLDINGS, INC.	7%	7%	9%	7%	12%	11%	12%	12%	11%	11%
WALMART INC.	11%	10%	10%	9%	9%	11%	10%	11%	11%	10%
AMAZON.COM, INC.	5%	3%	8%	6%	7%	6%	3%	7%	11%	10%
ROA [Net Income / Average Total Assets]	**28/08/2016**	**03/09/2017**	**02/09/2018**	**01/09/2019**	**30/08/2020**	**29/08/2021**	**28/08/2022**	**03/09/2023**	**01/09/2024**	**31/08/2025**
COSTCO WHOLESALE CORPORATION	7%	7%	8%	8%	7%	8%	9%	9%	11%	11%
BJ'S WHOLESALE CLUB HOLDINGS, INC.	1%	2%	4%	4%	8%	8%	8%	8%	8%	8%
WALMART INC.	7%	5%	3%	6%	5%	6%	5%	6%	7%	8%
AMAZON.COM, INC.	3%	2%	6%	5%	7%	8%	-1%	6%	9%	9%
ROE [Net Income / Average Total Equity]	**28/08/2016**	**03/09/2017**	**02/09/2018**	**01/09/2019**	**30/08/2020**	**29/08/2021**	**28/08/2022**	**03/09/2023**	**01/09/2024**	**31/08/2025**
COSTCO WHOLESALE CORPORATION	19%	24%	24%	23%	21%	28%	28%	25%	31%	28%
BJ'S WHOLESALE CLUB HOLDINGS, INC.	-13%	-5%	-63%	-344%	132%	66%	49%	36%	29%	26%
WALMART INC.	17%	12%	8%	18%	15%	15%	14%	17%	20%	21%
AMAZON.COM, INC.	12%	11%	23%	19%	23%	24%	-2%	15%	21%	19%
ROIC [EBIT / Average short and long-term debt and equity]	**28/08/2016**	**03/09/2017**	**02/09/2018**	**01/09/2019**	**30/08/2020**	**29/08/2021**	**28/08/2022**	**03/09/2023**	**01/09/2024**	**31/08/2025**
COSTCO WHOLESALE CORPORATION	21%	23%	23%	21%	18%	23%	25%	24%	28%	27%
BJ'S WHOLESALE CLUB HOLDINGS, INC.	13%	13%	18%	9%	18%	18%	20%	19%	17%	17%
WALMART INC.	18%	17%	17%	14%	15%	17%	17%	18%	19%	18%
AMAZON.COM, INC.	11%	6%	16%	10%	12%	9%	4%	10%	16%	14%

Costco's ROA (11% in FY2025) leads the peer group. Costco's ROE (28%) is higher than Walmart's (21%), BJ's (26%) and Amazon's (19%), and without the financial leverage that has historically distorted the returns of some of these competitors. The most relevant data point for business quality is ROIC: Costco closes FY2025 at 27%, the highest in the group, well above Walmart (18%), BJ's (17%) and Amazon (14%). And unlike Amazon's ROIC, which was negative or close to zero in FY2022, Costco's never fell below 18% during the entire decade, which confirms that the return on invested capital is structural to the model and not dependent on the cycle.

SWOT analysis

STRENGTHS

- 93% renewal rate in the US and Canada: the deepest moat in retail
- Kirkland: USD 86 billion in sales, the largest private label in the US
- ROIC close to 27%, sustained throughout the decade
- Net cash of about USD 9.9 billion and minimal debt
- Three CEOs in 41 years, all promoted from within
- Best inventory turnover in the group: 28 days
- A "treasure hunt" experience that drives traffic without advertising

WEAKNESSES

- 3.77% operating margin: little cushion against cost increases
- Few products per category: if one fails, there is no substitute
- A 10,000-15,000 m² format that limits reach in dense urban areas
- Digital experience lagging Amazon and Walmart
- More than 85% of warehouses in the US and Canada: geographic concentration
- International renewal (89.7%) below the US and Canada (93%)

OPPORTUNITIES

- International expansion: Europe, Southeast Asia and China are under-penetrated
- More than 30 openings a year as an organic growth engine
- E-commerce at an early stage: growing 22.6% with low penetration
- Fee increases every 5-7 years without losing members
- More services within the membership: health, travel and insurance
- Kirkland as a platform for new categories

THREATS

- Valuation of about 52 times earnings: any disappointment quickly compresses the multiple
- Lower renewal among members who join through digital channels
- Tariffs on China affecting non-perishable products
- Sam's Club accelerating in digital and improving Member's Mark
- US market saturation: 634 of 924 warehouses are already in the US
- Wage inflation: USD 31 an hour on average and rising

Source: author's analysis.

Porter's 5 Forces

Threat of new entrants	VERY LOW	Replicating the logistics scale, cost structure, membership system and culture would take decades of execution and huge amounts of capital.
Bargaining power of customers	LOW	High member loyalty (93% renewal), sustained low prices and psychological switching costs reduce customer power.
Threat of substitutes	MEDIUM	Amazon, Walmart and discount chains can compete on price or convenience, but none offers Costco's full combination of value, experience and membership.
Rivalry among competitors	LOW-MEDIUM	The warehouse club segment has few relevant players (Costco, Sam's Club and BJ's), with rational competition and growth that benefits everyone.
Bargaining power of suppliers	LOW	Costco's enormous purchasing volume gives it exceptional negotiating power over manufacturers and suppliers.

Source: author's analysis.

Costco operates in an exceptionally favorable industry structure. The three most important forces for sustained profitability (power over suppliers, threat of new entrants and the power of customers to erode margins) are low. Existing rivalry is manageable and the threat of substitution is limited to specific categories. It is the most favorable Porter configuration a retailer of this scale can have.

Main risks

Valuation and the risk of multiple compression

The most immediate risk for an investor buying Costco today is not operational: it is valuation. With a P/E of ~45x, the market is paying considerably more than the historical median of the last 10 years. That means that even with earnings growing at 12% a year (in line with analyst consensus), it would take several years to recover the valuation premium paid on entry. A quarterly disappointment in the renewal rate, or any sign of slowing membership growth, could compress multiples quickly.

Erosion of the digital renewal rate

The expansion of digital sign-ups has brought a new problem: members who sign up online, often through promotions such as Groupon, renew at lower rates than those who sign up in person at the warehouse. The global renewal rate fell from 90.2% to 89.8% during FY2026 because of this effect. Management acknowledges it and is investing in digital retention tools (auto-renewal, digital benefits for Executive members, personalized communication), but it is a risk to monitor because if the trend accelerates, the central pillar of the model erodes.

Saturation of the US market and dependence on international expansion

With 647 of its 939 warehouses in the US and Puerto Rico, Costco is at an advanced stage of penetration in its main market. Future growth depends more and more on international expansion, where the cultural, regulatory and operating challenges are greater. Asian markets (China, Japan, Korea) have had mixed results in adapting the American model to local shopping preferences. If the pace of international expansion disappoints, the current growth multiple cannot be sustained.

Tariffs and exposure to global supply chains

Costco imports a significant share of its non-perishable assortment from China, Vietnam and other Asian markets. The 2025 tariffs created cost pressure that Costco could not fully pass on to members without risking its price perception. Management has said that in specific categories it chose to absorb part of the cost rather than raise prices, which puts marginal pressure on gross margin. A further escalation of protectionism could create real tension between keeping the 14% margin cap and sustaining profitability.

SECTION 06

The bulls vs. the bears

With Costco, the debate is not about the quality of the business. Practically nobody questions it. The debate is about the price.

What do the bulls say?

The first argument is **consistency**. Costco has been growing for decades without a single bad year, with renewals above 90% and a ROIC that keeps rising. The bulls argue that a business like this deserves a multiple far above the market's because the risk of something going wrong is much lower.

The second argument is that **there is still plenty of room to grow**. Costco has fewer than 1,000 warehouses worldwide and its presence outside North America is still small. The digital channel grows close to 20% a year and adds a new source of growth.

The third is that there are levers that have not been used yet: the next fee increase (Costco usually raises them every five or six years), the growth of advertising on its digital platform (*retail media*) and higher penetration of Executive memberships.

What do the bears say?

The bears do not question the business, they question the math. At 45-50 times earnings, even with earnings per share growing at 12% a year, investors need many years for the valuation to normalize. If the multiple goes back to 30-35 times, which is still high for a retailer, returns over the coming years could be very low even if the company does everything right.

The second argument is that the global renewal rate has been slipping slightly because of members who join through digital channels. It is a small change, but it touches the central pillar of the model.

And third, FY2026 growth was helped by fuel prices and by the fee increase. Excluding those effects, comparable sales grew around 6-7%, an excellent number, but quite a bit lower than the headline suggests.

SECTION 07

Valuation

To put numbers on everything we have seen, I built **a ten-year discounted cash flow (DCF) model** with two methods to calculate the terminal value: **perpetuity growth** and **exit multiple on EBITDA**.

For a company like Costco this clarification matters: the longer the model's horizon, the harder it is to justify a high terminal multiple. Ten years from now Costco will be a bigger and more mature company, and the multiple we apply at the end has to be consistent with the growth it will have at that point.

Model inputs and assumptions

Both methods share the following **assumptions or drivers**:

2. Operating drivers by scenario (explicit forecast)

Driver	Δ vs Base	FY2024A	FY2025A	FY2026A	3Y avg	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E	FY2036E
Forecast year #						*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
Revenue growth ▸ selected scenario		5.0%	8.2%	10.1%	**7.8%**	**8.5%**	**8.0%**	**7.5%**	**7.5%**	**7.0%**	**7.0%**	**6.5%**	**6.0%**	**5.5%**	**5.0%**
Best case	1.0%					9.5%	9.0%	8.5%	8.5%	8.0%	8.0%	7.5%	7.0%	6.5%	6.0%
Base case						8.5%	8.0%	7.5%	7.5%	7.0%	7.0%	6.5%	6.0%	5.5%	5.0%
Worst case	(1.5%)					7.0%	6.5%	6.0%	6.0%	5.5%	5.5%	5.0%	4.5%	4.0%	3.5%
Gross margin ▸ selected scenario		12.6%	12.8%	12.8%	**12.7%**	**12.9%**	**13.0%**	**13.0%**	**13.0%**	**13.1%**	**13.1%**	**13.2%**	**13.2%**	**13.2%**	**13.2%**
Best case	0.2%					13.1%	13.2%	13.2%	13.2%	13.3%	13.3%	13.4%	13.4%	13.4%	13.4%
Base case						12.9%	13.0%	13.0%	13.0%	13.1%	13.1%	13.2%	13.2%	13.2%	13.2%
Worst case	(0.3%)					12.6%	12.7%	12.7%	12.7%	12.8%	12.8%	12.9%	12.9%	12.9%	12.9%
EBIT margin ▸ selected scenario		3.6%	3.8%	3.8%	**3.7%**	**3.9%**	**3.9%**	**4.0%**	**4.0%**	**4.1%**	**4.2%**	**4.2%**	**4.3%**	**4.3%**	**4.4%**
Best case	0.3%					4.2%	4.2%	4.3%	4.3%	4.4%	4.5%	4.5%	4.6%	4.6%	4.7%
Base case						3.9%	3.9%	4.0%	4.0%	4.1%	4.2%	4.2%	4.3%	4.3%	4.4%
Worst case	(0.5%)					3.4%	3.4%	3.5%	3.5%	3.6%	3.7%	3.7%	3.8%	3.8%	3.9%
Capex % of revenue ▸ selected scenario		1.9%	2.0%	2.1%	**2.0%**	**2.1%**	**2.1%**	**2.1%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**
Best case	(0.2%)					1.9%	1.9%	1.9%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%
Base case						2.1%	2.1%	2.1%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Worst case	0.3%					2.4%	2.4%	2.4%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%

Source: author's analysis.

Year 1 of the model is FY2027, which ends in August 2027.

For **revenue growth** in the base case I start at 8.5% in FY2027, somewhat below FY2026's 10.1% because that year was helped by fuel and the fee increase. After that I keep growth at 7-7.5% for several years, supported by 25-30 warehouse openings a year and the growth of the digital channel, and then a gradual slowdown to 5% in FY2036.

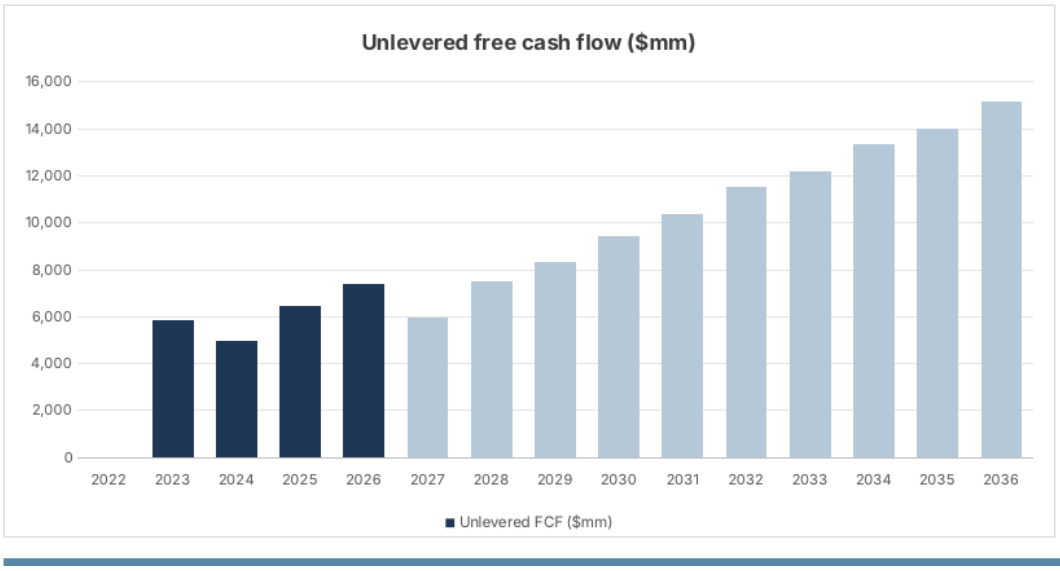
Gross margin stays practically stable, between 12.9% and 13.2%, because it is a company policy. **EBIT margin** rises slowly from 3.9% to 4.4%, in line with the historical improvement thanks to scale and the larger weight of Executive memberships and Kirkland.

Capex stays at around 2% of sales, in line with history and with the opening plan.

What does each scenario mean?

- The **base case** assumes Costco keeps doing what it has done over the last decades: growing with new warehouses and solid comparable sales, with a very gradual improvement in margins.
- The **best case** adds one point of growth per year and slightly more margin, reflecting faster international expansion and a larger contribution from the digital channel and advertising.
- The **worst case** takes away 1.5 points of growth and half a point of EBIT margin: a weaker consumer, lower membership renewal and slower international expansion. Even in this scenario Costco is still a great business.

With these assumptions, free cash flow grows steadily over the whole period:



Source: author's analysis.

Discount rate (WACC)

To bring the projected cash flows to the present, I calculated the discount rate as follows:

5. Discount rate (WACC)

		Value
Risk-free rate		4.9%
Equity beta (levered)	x	0.83
Equity risk premium		4.2%
Country risk premium		-
Cost of equity		8.4%
Pre-tax cost of debt		4.5%
Tax rate (debt tax shield)		24.7%
After-tax cost of debt		3.4%
Market value of equity	$ mm	470,231
Total debt	$ mm	10,181
Debt / (Debt + Equity)		2.1%
Equity / (Debt + Equity)		97.9%
WACC		8.3%

Source: author's analysis.

I used a risk-free rate of 4.9%, a beta of 0.83 (Costco is a defensive stock) and an equity risk premium of 4.2%, which gives a cost of equity of 8.4%. Since debt is very small relative to the company's market value, **the WACC comes out at 8.3%**.

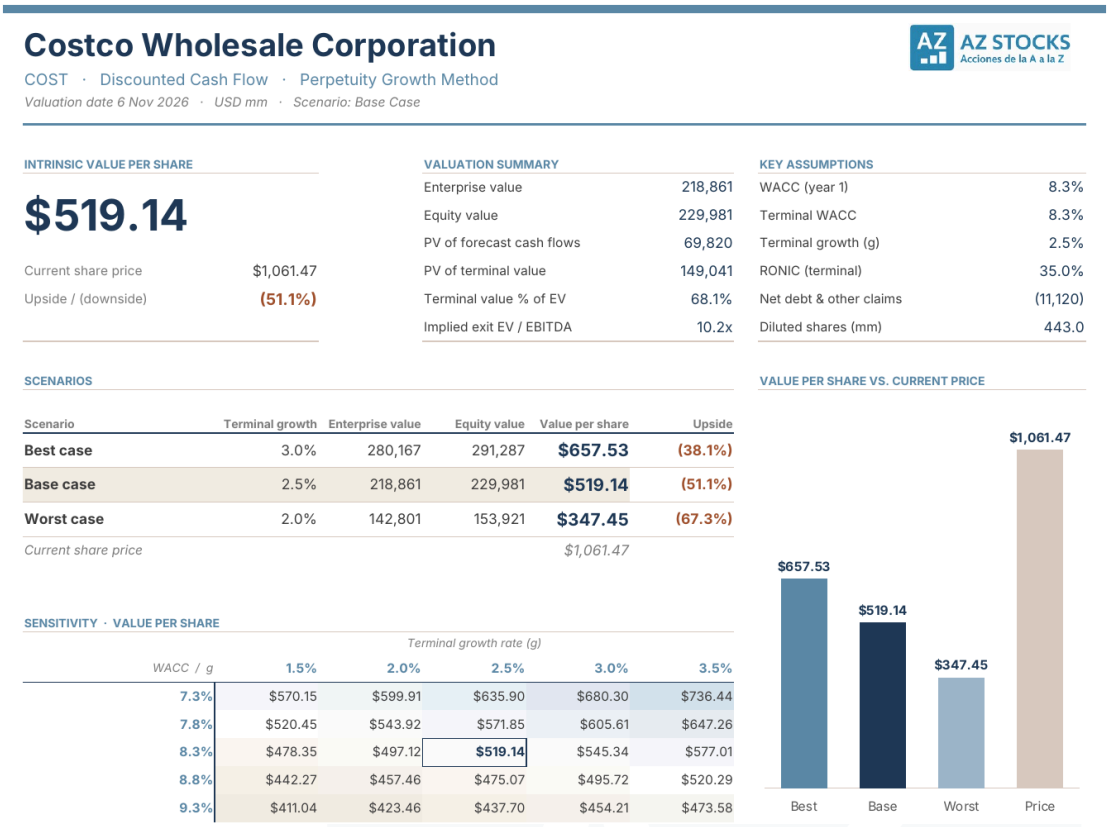
To go from Enterprise Value to Equity Value I added net cash of $11,120 million. The diluted share count is 443 million.

What is Costco worth? The two methods and what they say

Method 1: Perpetuity growth

For this method I assumed **a perpetual growth rate of 2.5%** after the projection period, with a return on new invested capital of 35%.

With that growth rate and a WACC of 8.3%, we get an Enterprise Value of $218,861 million and an Equity Value of $229,981 million. Divided by the shares outstanding, the intrinsic value is **$519 per share**.



Costco Wholesale Corporation

COST · Discounted Cash Flow · Perpetuity Growth Method

Valuation date 6 Nov 2026 · USD mm · Scenario: Base Case

AZ STOCKS Acciones de la A a la Z

INTRINSIC VALUE PER SHARE

$519.14

Current share price	$1,061.47
Upside / (downside)	(51.1%)

VALUATION SUMMARY

Enterprise value	218,861
Equity value	229,981
PV of forecast cash flows	69,820
PV of terminal value	149,041
Terminal value % of EV	68.1%
Implied exit EV / EBITDA	10.2x

KEY ASSUMPTIONS

WACC (year 1)	8.3%
Terminal WACC	8.3%
Terminal growth (g)	2.5%
RONIC (terminal)	35.0%
Net debt & other claims	(11,120)
Diluted shares (mm)	443.0

SCENARIOS

Scenario	Terminal growth	Enterprise value	Equity value	Value per share	Upside
Best case	3.0%	280,167	291,287	**$657.53**	(38.1%)
Base case	2.5%	218,861	229,981	**$519.14**	(51.1%)
Worst case	2.0%	142,801	153,921	**$347.45**	(67.3%)
Current share price				*$1,061.47*	

VALUE PER SHARE VS. CURRENT PRICE

SENSITIVITY · VALUE PER SHARE

Terminal growth rate (g)

WACC / g	1.5%	2.0%	2.5%	3.0%	3.5%
7.3%	$570.15	$599.91	$635.90	$680.30	$736.44
7.8%	$520.45	$543.92	$571.85	$605.61	$647.26
8.3%	$478.35	$497.12	**$519.14**	$545.34	$577.01
8.8%	$442.27	$457.46	$475.07	$495.72	$520.29
9.3%	$411.04	$423.46	$437.70	$454.21	$473.58

Source: author's analysis.

In the **best** case, the value per share is **$658**, and in the **worst** case **$347**.

The sensitivity table shows how the result changes if we modify the WACC or the perpetual growth rate:

Even with a WACC of 7.3% and perpetual growth of 3.5%, the value per share reaches $736, still far below the current price.

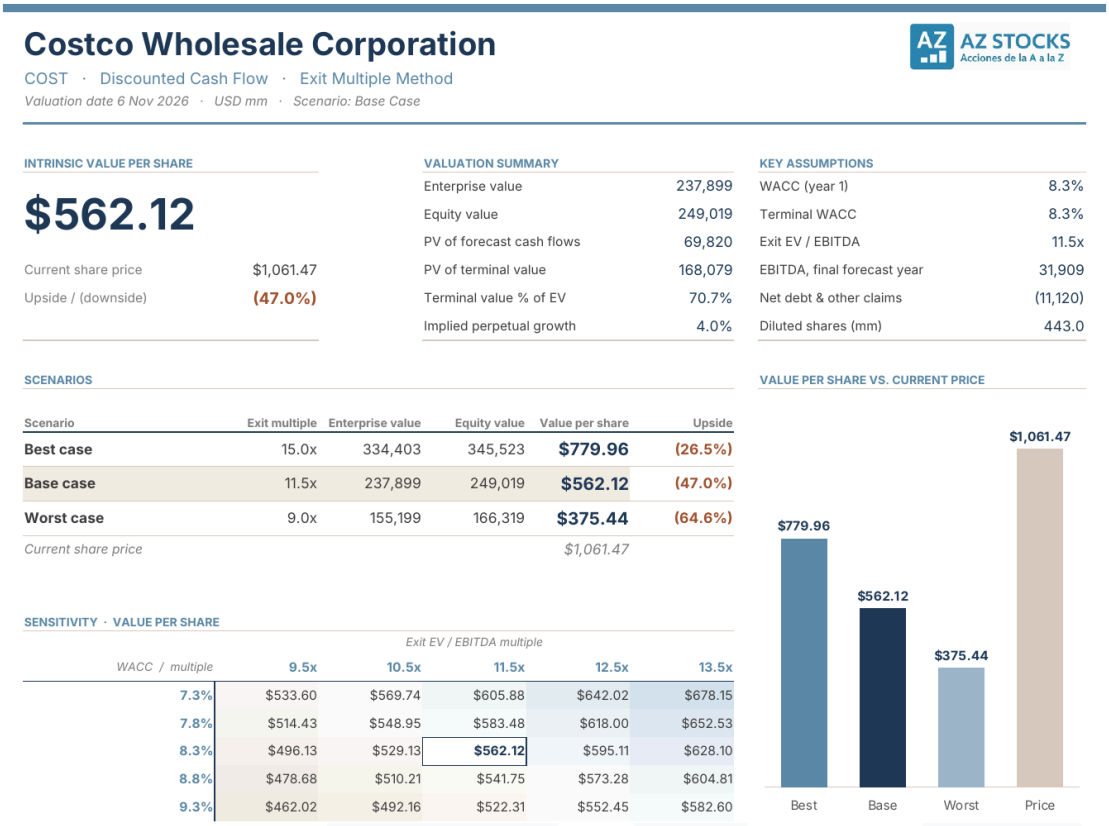
Method 2: Terminal EBITDA multiple

For this method I used the following multiples on the EBITDA of the last projected year:

- Best case: 15x
- ***Base case: 11.5x***
- Worst case: 9x

I know these multiples are far below today's (Costco trades at almost 29 times EBITDA). But an 11.5x multiple applied in year ten already implies perpetual growth of 4%, which is the maximum I consider reasonable for any company over the long term. Using 20 or 25 times EBITDA in 2036 would be the same as assuming that Costco will keep growing forever considerably faster than the economy.

With that multiple we get an Enterprise Value of $237,899 million and an Equity Value of $249,019 million, equivalent to **$562 per share**.



Costco Wholesale Corporation

COST · Discounted Cash Flow · Exit Multiple Method

Valuation date 6 Nov 2026 · USD mm · Scenario: Base Case

AZ STOCKS Acciones de la A a la Z

INTRINSIC VALUE PER SHARE

$562.12

Current share price	$1,061.47
Upside / (downside)	(47.0%)

VALUATION SUMMARY

Enterprise value	237,899
Equity value	249,019
PV of forecast cash flows	69,820
PV of terminal value	168,079
Terminal value % of EV	70.7%
Implied perpetual growth	4.0%

KEY ASSUMPTIONS

WACC (year 1)	8.3%
Terminal WACC	8.3%
Exit EV / EBITDA	11.5x
EBITDA, final forecast year	31,909
Net debt & other claims	(11,120)
Diluted shares (mm)	443.0

SCENARIOS

Scenario	Exit multiple	Enterprise value	Equity value	Value per share	Upside
Best case	15.0x	334,403	345,523	**$779.96**	(26.5%)
Base case	11.5x	237,899	249,019	**$562.12**	(47.0%)
Worst case	9.0x	155,199	166,319	**$375.44**	(64.6%)
Current share price				*$1,061.47*	

VALUE PER SHARE VS. CURRENT PRICE

SENSITIVITY · VALUE PER SHARE

Exit EV / EBITDA multiple

WACC / multiple	9.5x	10.5x	11.5x	12.5x	13.5x
7.3%	$533.60	$569.74	$605.88	$642.02	$678.15
7.8%	$514.43	$548.95	$583.48	$618.00	$652.53
8.3%	$496.13	$529.13	**$562.12**	$595.11	$628.10
8.8%	$478.68	$510.21	$541.75	$573.28	$604.81
9.3%	$462.02	$492.16	$522.31	$552.45	$582.60

Source: author's analysis.

In the **best** case, the value per share is **$780**, and in the **worst** case **$375**.

Reading the two methods together

For the target price I take the average of both methods in the base case: **$541 per share**, against a current price of $1,061. In other words, **the stock trades at almost twice what it is worth under my assumptions**. Not even the best case, with more growth and more margin, reaches the current price.

This does not mean Costco is going to fall by half. It can keep trading at a premium for many years, as it has done so far. But it does mean that the current price assumes a scenario in which Costco grows at 8-10% a year for well over ten years and the market keeps paying 25-30 times EBITDA at the end. It is possible, but it leaves no margin of safety.

A note on special dividends: I did not include future special dividends or buybacks in the model. They do not change the value of the company: they are a way of returning cash that the DCF is already counting.

SECTION 08

Conclusion

Costco is probably one of the best businesses in the retail world.

Its combination of recurring revenue through memberships, global scale, operating discipline and a culture obsessed with customer value has built a model that is extremely hard to replicate. The FY2026 results confirm it once again: sales growing at 10%, renewals above 90% in North America and ROIC at the highest of the decade.

For decades the company has sustained:

- high returns on capital,
- consistent growth,
- and exceptional customer loyalty, without needing to aggressively expand its margins.

However, my valuation model gives a **target price of $541 per share**, almost half the current price of $1,061.

I want to be clear about this number. I am not saying Costco is a bad business or that the price will fall to that level. I am saying that, with assumptions I consider reasonable (and in some cases generous), I cannot justify the current price. To get to $1,000 per share I would have to assume terminal multiples of 25-30 times EBITDA ten years from now, and that is betting that today's multiple will last forever.

That is why the main challenge is not identifying the quality of the business, but deciding how much one is willing to pay for it. The main risk today is not operational but the multiple: any normalization of the valuation quickly reduces returns, even if the company keeps executing flawlessly.

I prefer to wait for a better entry point, whether through a general market correction, a one-off earnings disappointment or simply the multiple normalizing. Realistically, I do not think Costco will reach my target price. But I would start looking at it with more interest after significant declines, where the expected return starts to make up for the risk of paying such a large premium.

Costco is exactly the kind of company I like to have in my portfolio. The problem is not the business, it is the price.





WEB
azstocks.net

SUBSTACK
@alaninvests

X
@alan_azstocks