



Rory Feeney
March 2023

Investment Thesis



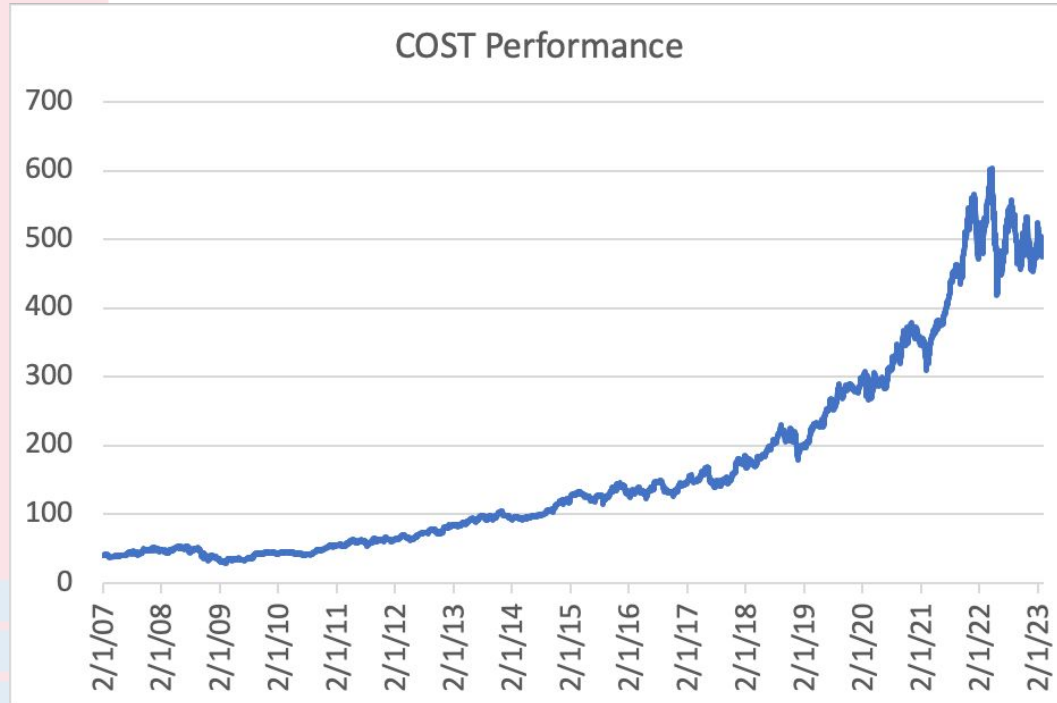
- **Buy Costco shares**
 - Current price: \$477.21
 - Target price: \$533.78 ←
 - Upside: 11.8%
 - Key drivers:
 - Consumer staple industry
 - Covid resiliency
 - Consistent growth
- DDM Case 1: \$510.58 (33%)
- DDM Case 2: \$557.00 (33%)
- FCF Case 1: \$533.79 (34%)

Company Overview

Sector: Consumer Defensive

WHOLESALE

Industry: Discount Stores



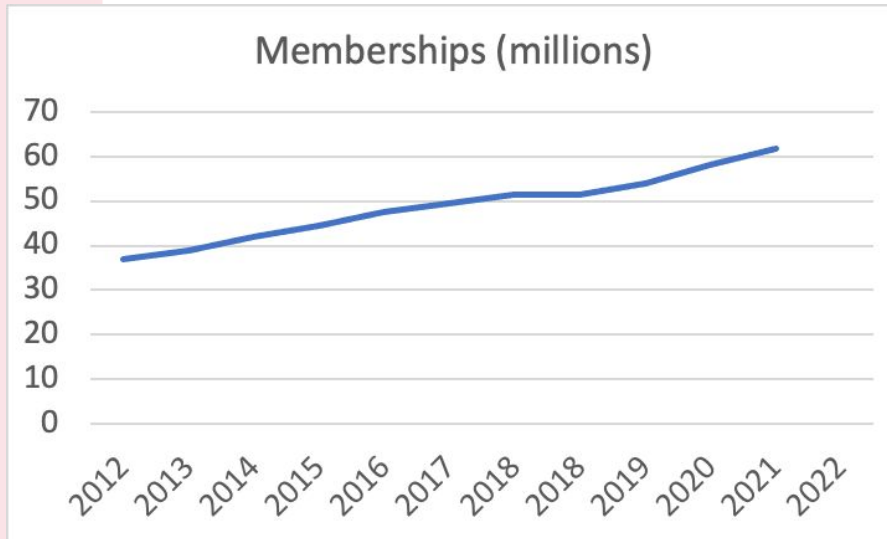
**W. Craig
Jelinek**
CEO



Ron Vachris
**COO &
Director**

Business Description

Costco is a membership-based warehouse club that carries quality merchandise at lower prices than are typically found at conventional wholesale or retail sources.



Key Metrics	
Share Price (\$)	477.21
Market Cap (billions)	215.98
Beta	0.78
P / E	36.49
P / Book	10.1
D / E	0.3
ROE	25.91%

Memberships have grown at 5.2% per year since 2012

Business Description

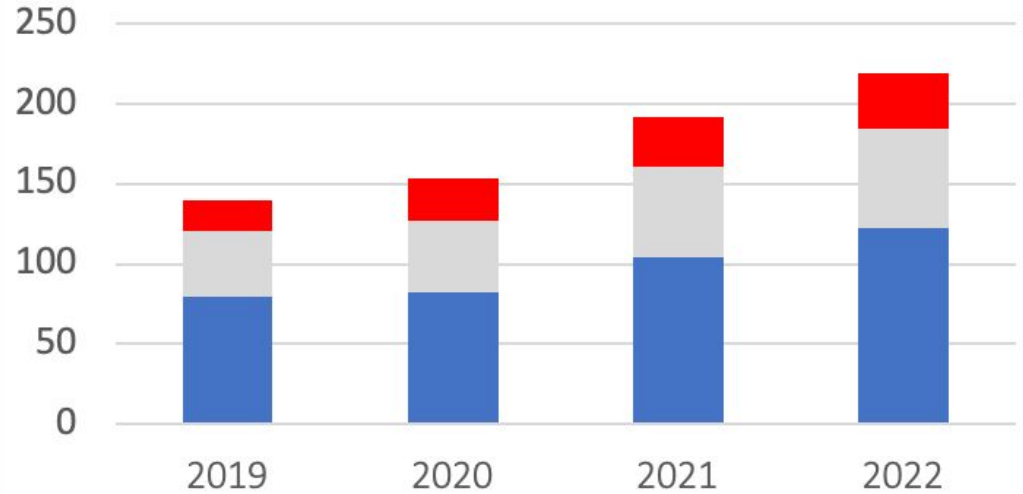
% Total Revenue



■ United States ■ Canada ■ Other

~75% of revenues from U.S.

Net Sales by Category (Billions of \$)



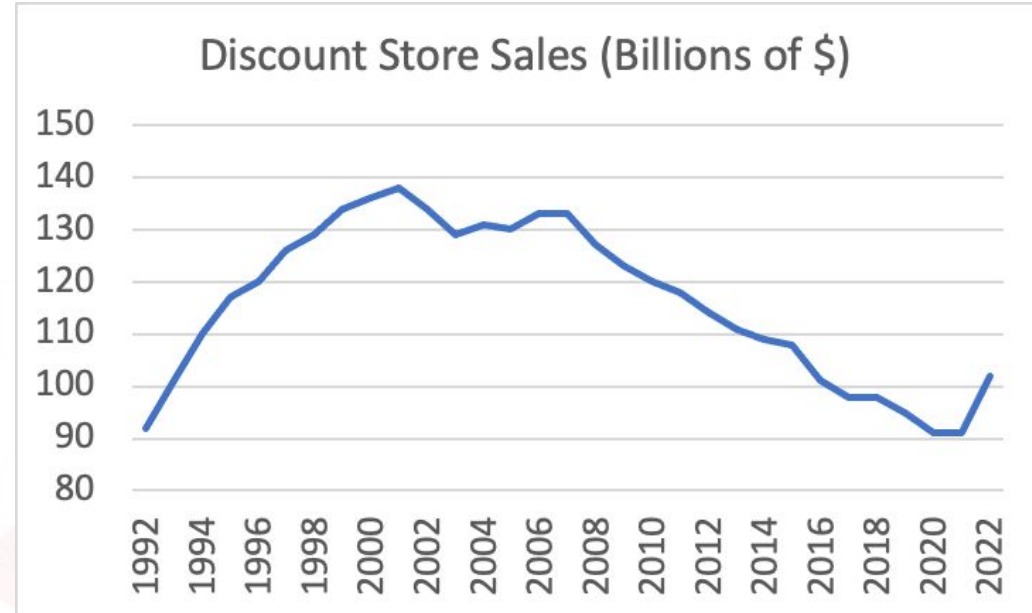
■ All food ■ Non-Foods ■ Other

Steady growth overall, 15.8% CAGR in All food, 14.3% CAGR in Non-Foods

Industry Analysis

U.S. discount store sales:

- Decreasing since 2008
- Slight increase in last two years
- E-commerce growing at a faster rate than physical retail, likely to slow as in-store retail bounces back from Covid
- Economic uncertainty... consumer spending?



(Discluding online sales)

Comparable Company Analysis

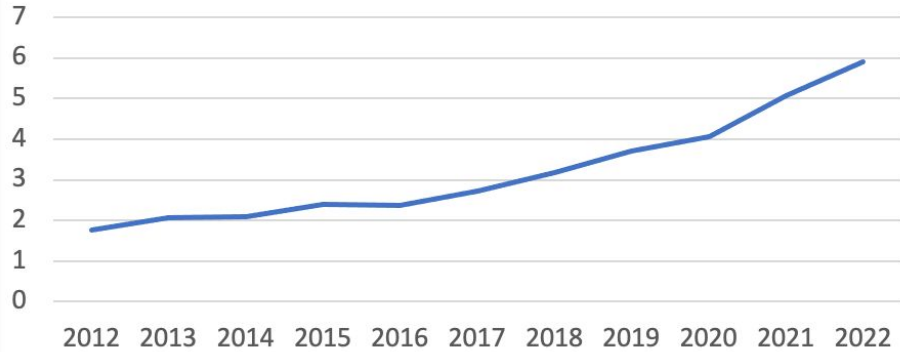


Company	Market Cap (B)	P/E	P/B	ROE (%)	EV/EBITDA
Costco	212.54	36.71	10.06	33.70	21.46
Walmart	377.82	32.64	4.55	16.70	16.87
Target	74.64	22.06	6.97	30.51	12.59
Kroger	30.84	13.56	3.15	16.23	6.93
TJX	88.81	24.55	13.91	56.20	57.85
Ross Stores	38.11	25.18	9.18	35.39	60.57
Dollar General	48.359	21.02	3.93	39.31	78.64
Mean (incl. Costco)	124.45	25.10	7.39	32.58	36.42

Financial Analysis

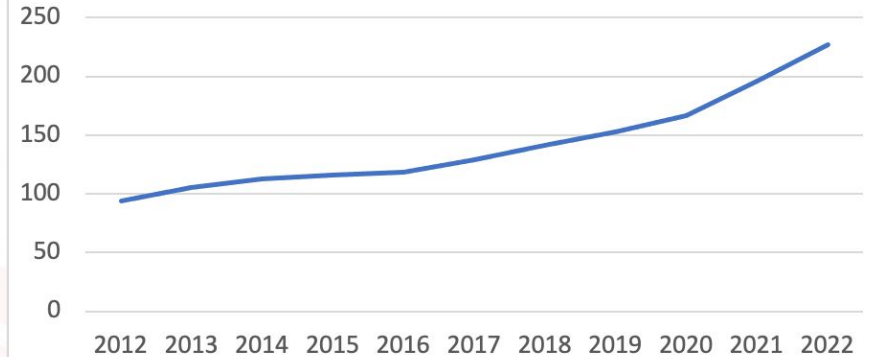


Net Income (billions of \$)



12.7% CAGR

Revenue (billions of \$)

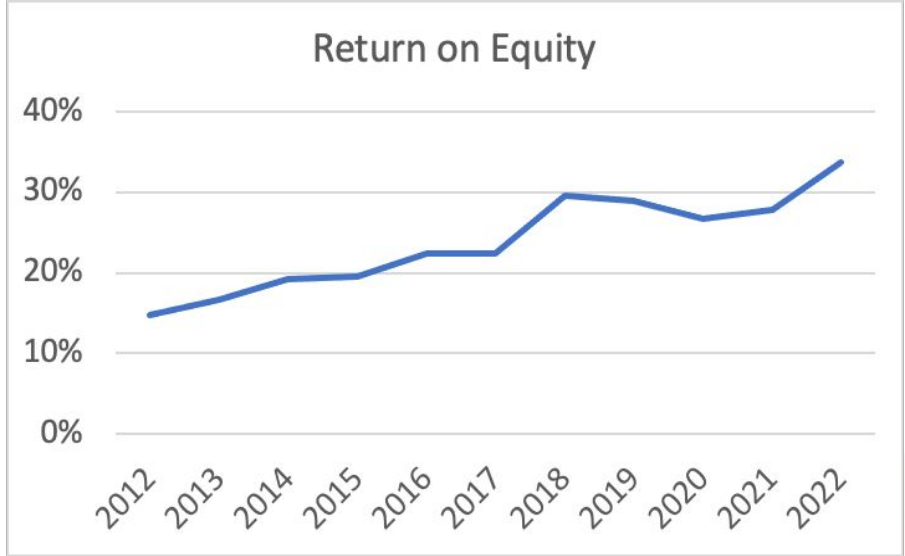


9.8% CAGR

Financial Analysis

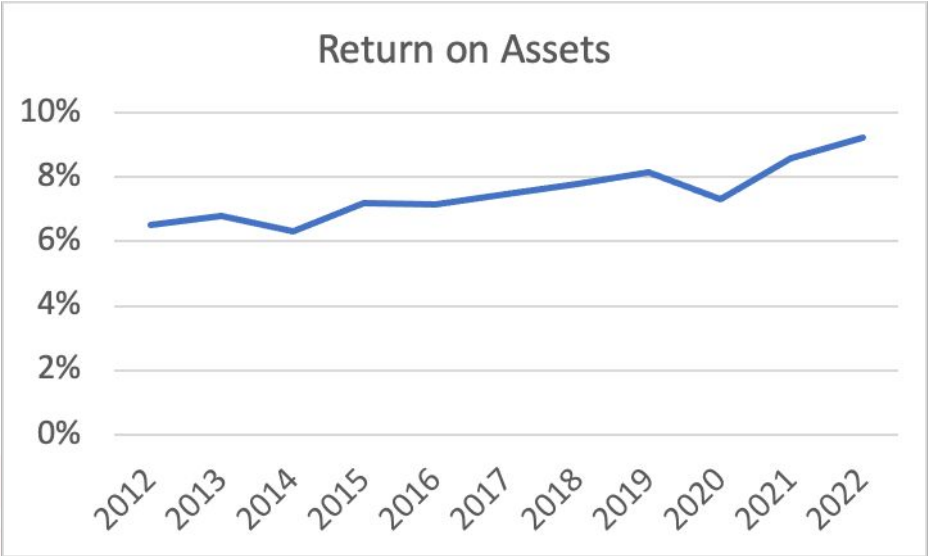


Return on Equity



8.8% CAGR

Return on Assets

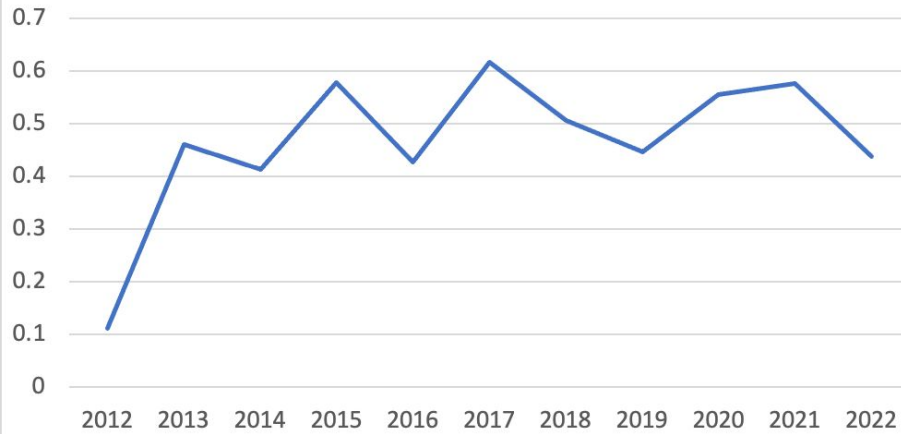


3.5% CAGR

Financial Analysis

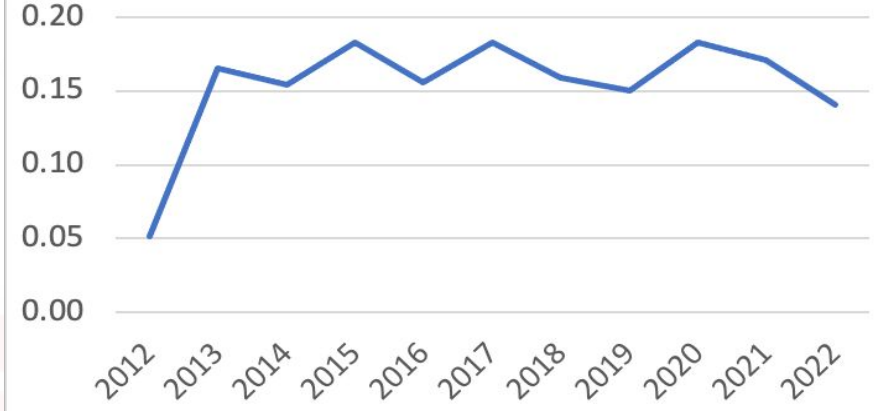


Total Debt to Equity



15.5% CAGR

Total Debt to Total Assets



7.5% CAGR

Dividend Discount Model



Dividend Discount Model	
Constant Growth Model	
Growth Rate	-5.00%
Number of Years in Stage 1	3
Stage 2 Growth Rate	10.00%
Number of Years in Stage 2	
Stage 3 Growth Rate	
Growth Path	Linear
Cost of Equity Capital	8.50%
Free Cash Flow, LTM	\$3.60

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Cost of Equity Capital	8.50%
Free Cash Flow, LTM	\$3.60

k/terminal g	4.50%	5.00%	5.50%	6.00%	6.50%	7.00%	7.50%
7.00%	\$459.80	\$577.50	\$773.67	\$1,166.00			
7.50%	\$383.17	\$462.00	\$580.25	\$777.33	\$1,171.50		
8.00%	\$328.43	\$385.00	\$464.20	\$583.00	\$781.00	\$1,177.00	
8.50%	\$287.38	\$330.00	\$386.83	\$466.40	\$585.75	\$784.67	\$1,182.50
9.00%	\$255.44	\$288.75	\$331.57	\$388.67	\$468.60	\$588.50	\$788.33
9.50%	\$229.90	\$256.67	\$290.13	\$333.14	\$390.50	\$470.80	\$591.25
10.00%	\$209.00	\$231.00	\$257.89	\$291.50	\$334.71	\$392.33	\$473.00
\$510.58							

k/terminal g	4.50%	5.00%	5.50%	6.00%	6.50%	7.00%	7.50%
7.00%	\$501.60	\$630.00	\$844.00	\$1,272.00			
7.50%	\$418.00	\$504.00	\$633.00	\$848.00	\$1,278.00		
8.00%	\$358.29	\$420.00	\$506.40	\$636.00	\$852.00	\$1,284.00	
8.50%	\$313.50	\$360.00	\$422.00	\$508.80	\$639.00	\$856.00	\$1,290.00
9.00%	\$278.67	\$315.00	\$361.71	\$424.00	\$511.20	\$642.00	\$860.00
9.50%	\$250.80	\$280.00	\$316.50	\$363.43	\$426.00	\$513.60	\$645.00
10.00%	\$228.00	\$252.00	\$281.33	\$318.00	\$365.14	\$428.00	\$516.00
\$557.00							

Free Cash Flow Model



Free Cash Flow Model	
Constant Growth Model	
Growth Rate	-5.00%
Number of Years in Stage 1	3
Stage 2 Growth Rate	10.00%
Number of Years in Stage 2	
Stage 3 Growth Rate	
Growth Path	Linear
Cost of Equity Capital	8.50%
Free Cash Flow, LTM	\$3.60
Total Debt (\$ millions)	\$9,039.00
Cash (\$ millions)	\$11,049.00
Shares Outstanding (millions)	442.60
Weighted Average Cost of Capital (%)	8.65%

k / terminal g	4.50%	5.00%	5.50%	6.00%	6.50%	7.00%	7.50%
7.00%	\$480.70	\$603.75	\$808.83	\$1,219.00			
7.50%	\$400.58	\$483.00	\$606.62	\$812.67	\$1,224.75		
8.00%	\$343.36	\$402.50	\$485.30	\$609.50	\$816.50	\$1,230.50	
8.50%	\$300.44	\$345.00	\$404.42	\$487.60	\$612.37	\$820.33	\$1,236.25
9.00%	\$267.06	\$301.88	\$346.64	\$406.33	\$489.90	\$615.25	\$824.17
9.50%	\$240.35	\$268.33	\$303.31	\$348.29	\$408.25	\$492.20	\$618.12
10.00%	\$218.50	\$241.50	\$269.61	\$304.75	\$349.93	\$410.17	\$494.50
\$533.79							

Investment Risks



- Systemic risk
 - Inflation
 - Recession
- e-Commerce
 - Lack of ambition in e-Commerce segment
 - Underinvestment in technology compared to Walmart/Amazon (no price check, inventory check, curbside pickup)
- Membership dependence

Conclusion



- **Buy Costco shares**
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Questions?



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WHOLESALE

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