



## Analyst Report

### 2017-2018 Student Managed Fund

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# Table of Contents

<b>Recommendation Overview</b>	<b>3</b>
<b>Costco Corporation Overview</b>	<b>4</b>
<b>Business Description</b>	<b>4</b>
<b>Corporate Strategy</b>	<b>5</b>
<b>Industry Analysis</b>	<b>6</b>
<b>Trends &amp; Drivers</b>	<b>6</b>
<b>Competitive Analysis</b>	<b>6</b>
<b>Competitive Advantages</b>	<b>7</b>
<b>Investment Thesis</b>	<b>7</b>
<b>Resilient Brick-and-Mortar Store Sales</b>	<b>7</b>
<b>Surging E-Commerce Growth</b>	<b>8</b>
<b>Commitment to Store Expansions</b>	<b>8</b>
<b>Financials</b>	<b>9</b>
<b>Revenues</b>	<b>9</b>
<b>Working Capital</b>	<b>9</b>
<b>Valuation</b>	<b>10</b>
<b>DCF Valuation</b>	<b>10</b>
<b>Multiples Valuation</b>	<b>11</b>
<b>Risks to Thesis</b>	<b>11</b>
<b>Concentration Risk</b>	<b>11</b>
<b>Cannibalization Risk</b>	<b>11</b>
<b>Pricing Risk</b>	<b>12</b>
<b>Membership Deterioration Risk</b>	<b>12</b>
<b>CSR Considerations</b>	<b>12</b>
<b>Conclusion</b>	<b>13</b>
<b>Appendix</b>	<b>14</b>

# Recommendation Overview

## Costco Wholesale Corporation (NASDAQ: COST)

Sector: Consumer Staples

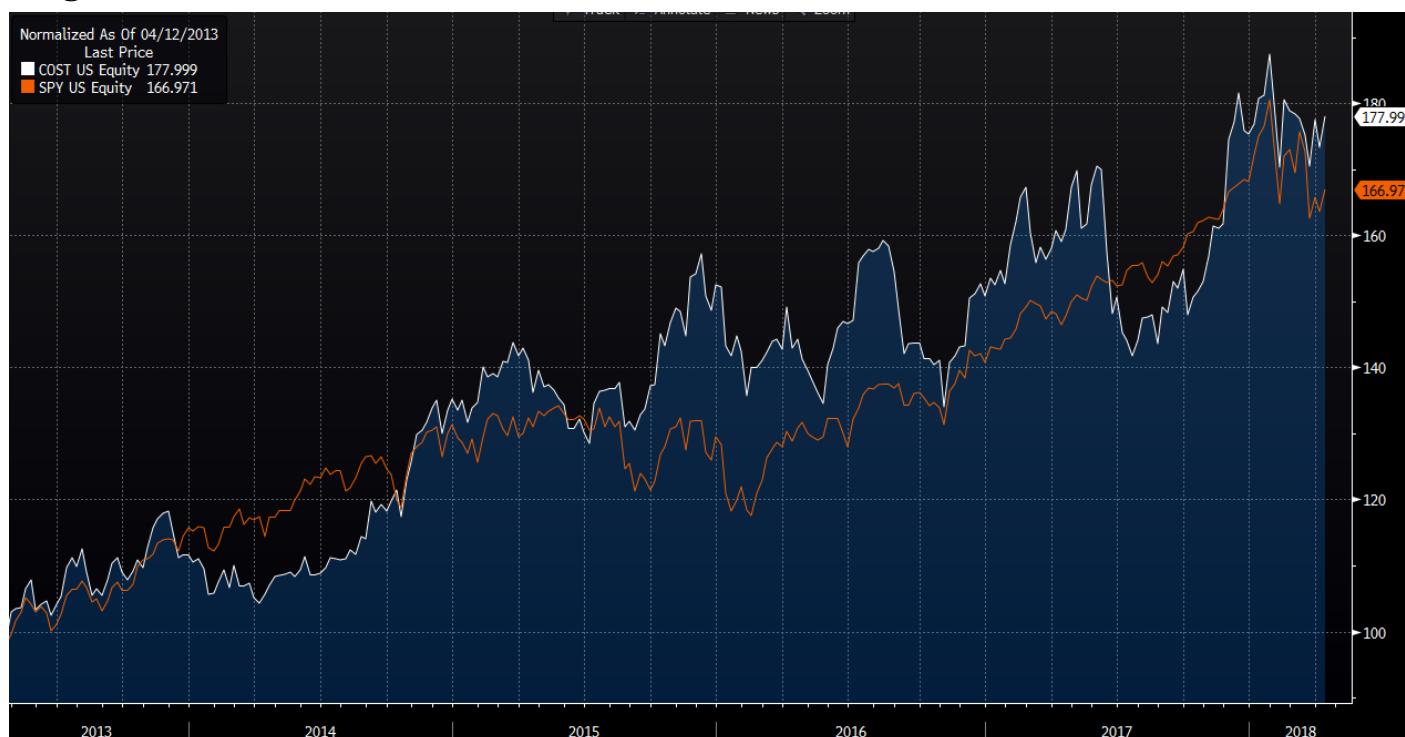
Current Px	Px Target	52-wk High	52-wk Low	P/E	Mkt. Cap.	Rating
\$188.91	\$217.52	\$199.88	\$150.00	28.96x	\$82.90B	BUY

### Basis for Recommendation

We recommend a BUY rating for COST because of its industry position and operational excellence. Costco's unique value proposition (low-cost, "treasure hunt" experience), strong customer retention (90% historically), and established market share (17.5% w/in Wholesalers) make them an industry stand-out. Our recommendation relies on the following drivers:

- Resilient brick-and-mortar sales: Same-store-sales have been impressive despite heightened competition
- Surging E-commerce business: The company has broadened the products available on its E-commerce platform and improved delivery speeds to compete with AMZN and WMT
- Capex commitments driving growth: COST has ramped up Capex spending to develop its online platform and continue adding warehouse locations (~30 starts per year)

Figure 1. Five Year Stock Performance vs. SPY



# Costco Corporation Overview

Figure 2. Costco Product Array



## Business Description

Costco Wholesale Corporation is the world's largest membership wholesale club with 730+ locations worldwide serving nearly 90 million members. A majority of their stores are in the U.S., Canada and Mexico, with additional locations in the Asia and EMEA regions. Costco also operates an e-commerce website, [costco.com](http://costco.com), where many of the same products can be purchased. Costco sells an annual membership for \$60 or \$120 which give cardholders access to discounts at warehouse locations. Warehouses average 145,000 sq. ft. and have efficient layouts. Products are displayed on pallets and only the fastest selling varieties are stocked. The company sells a broad array of national brands (3,800 SKUs) as well as Kirkland Signature, their low-cost proprietary brand.

The average warehouse is 145,000 square feet, and have floor plans that economically and efficiently use the available selling space. These stores are no-frills and the entrances and exits are tightly controlled, which leads to far lower inventory losses than competitors. On average the warehouses operate on a seven-day, 70-hour week. Gasoline operations have extended hours. Because the warehouse hours are lower than most competitors, labor costs are lower than competitors relative to sales.

Costco offers merchandise in the following categories:

- Foods - including dry foods, packaged foods, and groceries
- Sundries - including snack foods, candy, alcoholic and nonalcoholic beverages, and cleaning supplies
- Hardlines - including major appliances, electronics, health and beauty aids, hardware, and garden and patio
- Fresh Foods - including meat, produce, deli, and bakery
- Softlines - including apparel and small appliances
- Ancillary - including gas stations and pharmacy

The ancillary businesses provide complementary services to customers, and encourage members to shop more frequently. These include gas stations, pharmacy, optical dispensing centers, food courts, and hearing-aid centers.

Memberships can be used at any Costco warehouse worldwide. There are four options for membership: Gold Star, Gold Star Executive, Business, and Business Executive. Both Gold Star and Business cost \$60 annually, and the Executive versions of both cost \$120. The benefits of upgrading to Executive membership include annual 2% reward on eligible Costco and Costco Travel purchases, and extra benefits on selected Costco services including auto and home insurance, and check printing services. Costco's membership renewal rate was 90% in the U.S. and Canada and 87% on a worldwide basis in 2017. At the end of 2017 there were 90,300,000 total cardholders, of which 38% were Executive members.

### **Corporate Strategy**

Management believes that low prices on a limited selection of national brand merchandise and selected private-label products in a wide range of merchandise categories, produce high sales volume and rapid inventory turnover. These high levels of turnover combined with efficiencies gained from volume purchasing, a no-frills self-service warehouse facility, and the income from membership fees enables the business to operate a lower gross margins than competitors. Costco generally sells inventory before they are required to pay for it, even while taking advantage of early payment discounts when available. Management also believes that revenue growth will continue to be aided by frequent opening of new warehouses, both in the United States and also abroad.

In the 2017 Annual Report, CEO Craig Jelinek said that, “members of our leadership team and beyond realize the key to long-term success is not high margins; rather it is how you treat, engage, and include people: our members, our employees and our suppliers alike”. This clearly demonstrates the perspective that management has when it comes to how to run the business - they clearly value putting the customer and their employees first, before profits.

# Industry Analysis

Figure 3. Costco Gasoline



## Trends & Drivers

The Consumer Staples GICS Sector has returned -7.04% YTD, while the Hypermarkets & Super-Centers sub-industry has returned -7.69%. Despite recent headwinds, demand from consumers remains strong within the mature and highly concentrated industry. Hypermarkets and supercenters are poised to gain market share, based on their price advantage to traditional retailers. Revenue growth is expected to be 0.3% annually through 2022 (IBIS) on increased spending by higher-income customers and small businesses, who are attracted by the quality and value offered at these retailers.

The industry is driven by consumer disposable income and global oil prices, which are both expected to rise in the next five year period. Many players, including COST, sell gasoline at their locations, and stand to benefit from rising fuel prices. In addition, the industry is seeing a rapid shift towards online channels. Under pressure from AMZN, many retailers have expanded their online ecosystems and delivery networks to better serve consumers. The industry is positioned well to protect against macroeconomic trends, because of the inelastic demand for consumer staples. Headwinds for the business include continuing downward pressures on margins, rising wages, foreign currency gains and losses, and shipping costs.

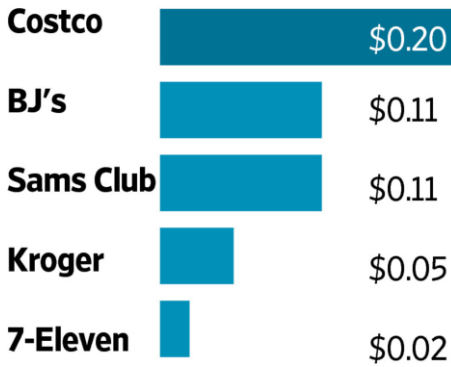
## Competitive Analysis

COST competes with other firms in the Food & Staples Retailing Industry, which can be broken down into the Drug, Food Distributors, Food Retail, and Hypermarkets & Super Centers sub-industries. COST primarily competes with the Sam's Club division of WMT and BJ's Wholesale (private). Costco controlled 18% of the market in 2017, compared with 71.7% by Walmart. Other competitors with single-digit market shares include Amazon (Whole Foods), Target, Dollar General, Dollar Tree, Five Below, Big Lots, Dollarama, and Kroger.

**Figure 4. Costco Fuel Price Advantage**

**Fill 'Er Up**

Average savings per gallon of gasoline compared to nearby competitors



Source: GasBuddy.com  
THE WALL STREET JOURNAL.

**Competitive Advantages**

Costco has a proven business model (high-density/low-cost) that allows them to price products lower than industry comps (20% cheaper than WMT, 7% cheaper than AMZN on average). They emphasize low labor costs (by selling products directly from pallets), high inventory turnover, and high employee satisfaction and retention. Because of this operational excellence and skilled capital allocation, Costco has grown EBITDA margins in the last 5 years (3.70% to 4.15%) and returned between 11 and 14% on invested capital. Their experienced management team (13 year average tenure) has shown ability to withstand price competition and maintain consistent margins.

Costco is also further pursuing competitive advantages by exploring vertical integration. They are currently under construction on a meat plant in Illinois, and they recently broke ground on a poultry plant in Nebraska. This means that they are taking some steps into producing their own meat, which would allow them to realize lower costs and be able to sell meat at lower prices than their competitors.

**Investment Thesis**

**Figure 5. Historical SSS Growth**

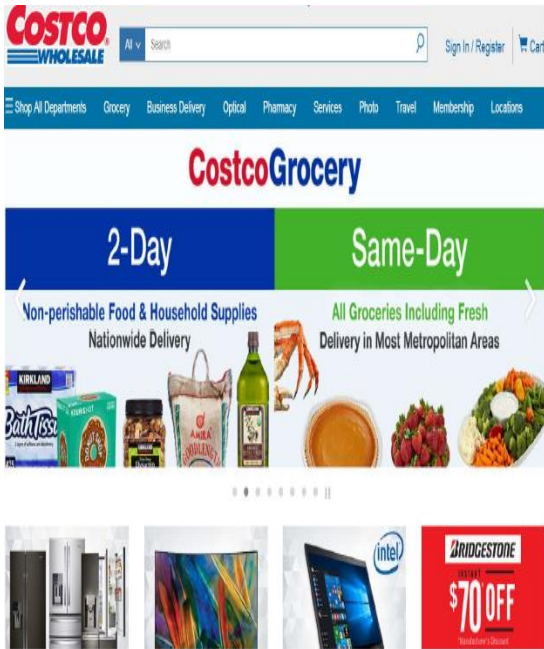


COST will deliver long-term returns due to its industry position as a differentiated low-cost provider and operational excellence. Our opinion is based on the following drivers:

**Resilient Brick-and-Mortar Sales**

They have shown resilience amid increased competition from retail comps, with sales results for second quarter 2018 representing an increase of 8.4% for the total company, over last year. According to the US Department of Commerce, in Q3 2017 only 9.1% of total retail sales were online sales. This might come as a surprise, given the media hype about how Amazon is taking over the entire world, but the reality is that people still by a vast majority prefer to shop in person.

**Figure 3. Costco's Online Platform**

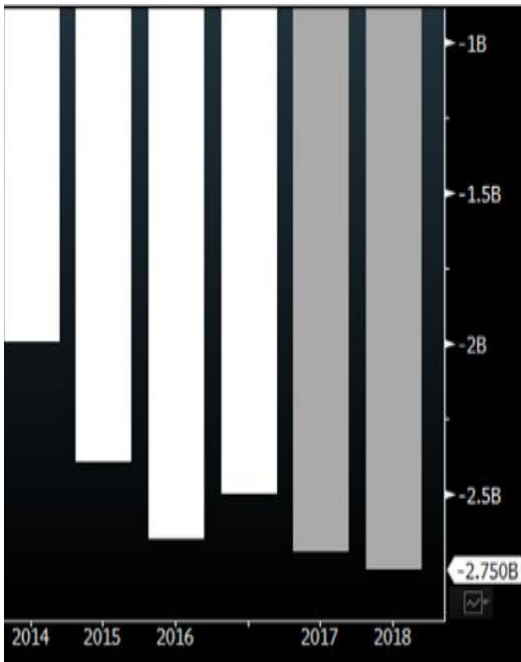


Going forward, we see Costco’s warehouses as a vital asset because it will continue to make sense for people to purchase large bulky items in stores and the drive them home in their own cars, versus having them shipped. Further, we haven’t seen a complete abandonment of brick and mortar retail when it comes to small items, so that will continue to remain robust going forward, and furthermore Costco is rapidly increasing its online presence and offering many of the smaller and higher value items online, at prices that are lower or comparable with other online retailers.

**Surging E-Commerce Growth**

Costco’s expanding E-Commerce presence (4% of 2017 revenues) is an important catalyst. In their March Sales Results press release they reported an impressive 33.7% growth in e-commerce sales over the last 31 weeks. This is stunning, compared to the retail industry overall (0.3% annualized growth). While E-commerce still makes up a small portion of total sales, from its rapid growth we can see that Costco members are starting to make their purchases on Costco’s website, rather than switch to using Amazon. Costco has steadily increased the number of products available for two-day or same-day delivery while maintaining its price advantage over Walmart. We believe that e-commerce will continue to help bolster revenue, and provide an effective defense to the threat posed by Amazon.

**Figure 3. Costco's increasing Capex Spend**



**Capex Spending Driving Revenue**

Additionally, Costco ramped up Capex spending in 2017 to establish footholds in new geographies, such as France and Iceland. This spending is directed at opening roughly 30 new warehouse stores each year, with most being in the US and a smaller portion being in international markets. As of the end of fiscal year 2017, they had 741 warehouses worldwide, with 514 of those being in the US. The next largest are Canada and Mexico with 97 and 37, respectively. They also have a large presence in Mexico (37), the UK (28), and Japan (26). One of their newest stores that they opened this year is in France. According to a Bloomberg article, Costco is finding success even in this market which is known to prefer high quality in small quantities. The success of this store has shown that the membership model can be implemented across cultures.



## Revenues

Net sales for the 53-week fiscal year totaled \$126.2 billion, an increase of nine percent from \$116.1 billion in the 52-week 2016 fiscal year, with a comparable sales increase of four percent.

Membership fee revenue increased 8% to \$2,853, primarily due to membership sign-ups at existing and new warehouses, an extra week of membership fees in 2017, the annual fee increase, and executive membership upgrades. Net income increased 14% to \$2,679, or \$6.08 per diluted share compared to \$2,350, or \$5.33 per diluted share in 2016. The 2017 results were positively impacted by an \$82 tax benefit, or \$0.19 per diluted share, in connection with the special cash dividend paid to the Company's 401(k) Plan participants and other net benefits of approximately \$51, or \$0.07 per diluted share, for non-recurring net legal and other matters.

## Working capital

Costco's primary requirement for capital is acquiring land, buildings, and equipment for new and remodeled warehouses. To a lesser extent, capital is required for initial warehouse operations, our information systems, and working capital. They opened 26 new warehouses and relocated 2 warehouses in 2017 and plan to open up to 24 new warehouses and relocate up to six warehouses in 2018. In 2017 they spent \$2,502 on capital expenditures, and it is their current intention to spend approximately \$2,500 to \$2,700 during fiscal year 2018. These expenditures are expected to be financed with cash from operations, existing cash and cash equivalents, and short-term investments; and will support revenue growth going forward.

# Valuation

**Figure 6. Valuation Summary**

	<u>Wt.</u>	<u>Tgt. Price</u>
DCF	100%	\$ 217.52
Multiples	0%	\$ 156.63
Price Target	<b>\$ 217.52</b>	

Our valuation for Costco is based on a discounted cash flow and a multiples valuation that was used as a reference point. The target price based on the DCF was \$217.52 (appendix D) and represents a 15.1% margin of safety over the price of \$188.91. Based on the current value of Costco, we recommend a LONG position in the stock. This is definitely a great company to hold for the long term, as we see room for capital appreciation beyond the predictions of my valuation. We weighted the DCF 100% and the Comps 0%, because we felt that only BJ's and Sam's Club were true comps, and BJ's is private and Sam's Club information is not broken out in detail on WMT's financial statements. However, we did run a comparable companies valuation as a sanity check on our discounted cash flow valuation, and the value it returned was in line with our target price.

**Figure 7. Share Sensitivity**

*Share Price Sensitivity*

		WACC		
		7.6%	8.1%	8.6%
Perp. Growth Rate	2.0%	\$217.21	\$201.78	\$188.59
	2.5%	\$235.94	\$217.52	\$202.02
	3.0%	\$258.71	\$236.33	\$217.84

## Discounted Cash Flow Valuation

Our target price comes entirely from the DCF because we felt that it was the most appropriate way to value the business, due to the predictability of the various drivers of valuation. Some highlights from my assumptions include revenue: we projected revenue growth of 8.5% in 2018 rising to 10% in 2020 and then tapering each year down to 7.5% in 2024. This was based on strong 9% growth in sales in the last few months as according to a press release from Costco. We also believe that dramatically increasing sales online (up 43.6% in the 12 weeks ending November 26, 2017) will serve as a strong catalyst for revenue growth going forward.

**Figure 8. M.O.S. Sensitivity**

*Margin of Safety Sensitivity*

		WACC		
		7.6%	8.1%	8.6%
Perp. Growth Rate	2.0%	15.0%	6.8%	(0.2%)
	2.5%	24.9%	15.1%	6.9%
	3.0%	36.9%	25.1%	15.3%

Another thing supporting the valuation is their consistency when it comes to cost of revenues. They have historically kept COGS pegged right around 89% of revenues (88.7%) and we have projected that they will continue to achieve this level of consistency going forward, based on their competency in logistics and inventory management.

Capital expenditures were discussed by management, and in their Q4 presentation they guided that spending would be in the neighborhood of \$2.6+ billion in the coming years, so we projected accordingly. This spending is specifically to support expanding the number of warehouses across the globe, especially internationally because of increasing saturation in the US.

**Figure 9. Multiples Valuation Summary**

Method	Share Price using ex. AMZN multiple
P/E	\$159.93
P/B	\$130.68
EV/EBITDA	\$179.29
Share Price	<b>\$156.63</b>

## Multiples Valuation

The multiples valuation is two-tiered, one value includes the multiples from Amazon and the other does not. This is because Amazon trades at an elevated multiple which is not representative of the broader industry. It was difficult to find direct comps for COST because the two best comps are either private (BJ's) or subsidiary of a larger company (Sam's Club). This means that we had to use a peer group of Walmart, Target, Dollar General, Dollar Tree, Five Below, Big Lots, Dollarama, Kroger, and Amazon. Including AMZN, the expected share price based on comps is \$236.27, and without AMZN it is \$156.63, the variance is explained by the dramatic difference seen in the average P/E, more detail available in appendix H.

## Risks to Thesis

**Figure 10. Store Locations**

### 747 Warehouses Worldwide

519 - U.S.	13 - Taiwan
98 - CN	9 - Australia
37 - Mexico	2 - Spain
28 - UK	1 - Iceland
26 - Japan	1 - France
13 - Korea	

### Concentration Risk

Costco is highly dependent on the financial performance of their U.S. and Canadian operations, which comprised 87% and 85% of net sales and operating income in 2017, respectively. Within the U.S., they are highly dependent on their California operations, which comprised 30% of U.S. net sales in 2017. While the geographic concentration of sales is very heavily reliant on the U.S., we feel that going forward the U.S. and Canadian markets will continue to be strong, and Costco's international presence will only continue to grow and get stronger, mitigating the concentration risk that is present today.

### Cannibalization Risk

Another risk faced by COST is the threat of self-cannibalization, especially in the US market. Their increased focus on opening new stores across the country is adding to the level of saturation that exists, and we have seen new stores cannibalizing their neighboring locations. However, we feel that this risk is mitigated because they have not yet reached full saturation and overall sales are still set to rise; and once the US market is fully saturated, we are confident in management's proven ability to expand into foreign markets.

## Figure 11. Membership Data

### Members:

- 49.9M households
- 91.5M total cardholders
- 90% renewal rate (U.S. & CN)
- \$2.9B in cash fees (LTM)

## Pricing Risk

COST faces competitive pricing pressures from its competitors, including AMZN, which is mitigated by its efficient operations and supply-chain capabilities. Costco competes with other big box wholesalers such as BJ's and Sam's club, with WMT's Sam's Club being the larger threat. However, we view Sam's club as more of a me-too effort, without the private label recognition of Kirkland brand products.

## Membership Deterioration Risk

Finally, COST faces risks associated with its membership renewal rates because of competition from other wholesale clubs and Amazon Prime. COST relies on the membership fees to enable their lower margin prices. We think that COST has proven itself capable of maintaining high renewal rates in the 90+% range, and therefore don't see this as a large threat to the business. Also, the performance of COST's online business and the nature of its product offerings serve to mitigate this risk.

## CSR Considerations

Costco is a leader in corporate social responsibility. They are renowned for treating their employees well, and for focusing on driving savings for their customers. Below are some statistics that demonstrate their commitment to responsible business practices.

### Key CSR Metrics vs. Industry Average

% Nonexecutive Directors on Board 91% (Industry 87%)

% Women on Board: 18% (Industry 24%)

CEO/Average COST Emp. Salary: 172x

Employee Attrition Rate: 6% (Industry 50%)

Community Ranking by CSR Hub 50 out of 100

*Source: Bloomberg*

As you can see, their board is more independent than the industry on average, while they do lag slightly on Women on the Board. One area where they truly shine is in the employee attrition rate, which is a mere 6% compared to the retail industry average of 50%. This is staggering and really proves that their employees are happy and are loyal to the company. This has many positive effects, including that the employees are more knowledgeable when helping customers and running the operations.

# Conclusion



We recommend a BUY rating on Costco (COST) with a price target of **\$217.52**, which represents a **15.1% margin of safety** as of the final closing price on April 13th, 2018 of \$188.91. Costco is a great opportunity because of resilient brick and mortar performance, strong e-commerce growth, and commitment to capital expenditures for store expansions.

# Appendix

## Appendix A. DCF Analysis

### Costco Wholesale Corp

#### DCF Analysis

(Dollars in Millions, Except Per Share Amounts)

	Historicals		Projections							
	Fiscal Year Ending December 31									
	2016A	2017A	2018E	2019E	2020E	2021E	2022E	2023E	2024E	Terminal
Revenue	\$118,719	\$129,025	\$139,978	\$153,230	\$168,453	\$184,331	\$199,867	\$214,758	\$230,761	\$230,761
% Growth	2.2%	8.7%	8.5%	9.5%	9.9%	9.4%	8.4%	7.5%	7.5%	
Adj. EBITDA	\$4,927	\$5,430	\$5,953	\$6,395	\$7,112	\$7,674	\$8,207	\$8,732	\$9,292	\$9,292
% Margin	4.2%	4.2%	4.3%	4.2%	4.2%	4.2%	4.1%	4.1%	4.0%	4.0%
Less: Depreciation & Amortization	(1,255)	(1,370)	(1,540)	(1,605)	(1,764)	(1,930)	(2,093)	(2,249)	(2,417)	(4,384)
Adj. EBIT	\$3,672	\$4,060	\$4,413	\$4,790	\$5,348	\$5,744	\$6,113	\$6,483	\$6,875	\$4,907
% Margin	3.1%	3.1%	3.2%	3.1%	3.2%	3.1%	3.1%	3.0%	3.0%	2.1%
Less: Taxes	(1,248)	(1,380)	(927)	(1,006)	(1,123)	(1,206)	(1,284)	(1,361)	(1,444)	(1,031)
Memo: Effective Tax Rate	34.0%	34.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Tax-Effectuated EBIT	\$2,424	\$2,680	\$3,486	\$3,784	\$4,225	\$4,538	\$4,830	\$5,121	\$5,432	\$3,877
Plus: Depreciation & Amortization	1,255	1,370	1,540	1,605	1,764	1,930	2,093	2,249	2,417	4,384
Less: Change in NWC	(910)	1,885	(241)	456	527	552	541	518	557	557
Less: Capital Expenditures	(2,649)	(2,502)	(2,660)	(2,911)	(3,201)	(3,502)	(3,797)	(4,080)	(4,384)	(4,384)
<b>Unlevered Free Cash Flows</b>	<b>\$120</b>	<b>\$3,433</b>	<b>\$2,125</b>	<b>\$2,933</b>	<b>\$3,316</b>	<b>\$3,518</b>	<b>\$3,667</b>	<b>\$3,808</b>	<b>\$4,020</b>	<b>\$4,434</b>

#### Memo: Net Working Capital Calculation

Accounts Receivable	1,252	1,432	1,534	1,679	1,846	2,020	2,190	2,354	2,529
Inventories	8,969	9,834	10,638	11,645	12,802	14,009	15,190	16,322	17,538
Other Current Assets	268	272	274	300	330	361	392	421	453
<b>Current Assets</b>	<b>\$10,489</b>	<b>\$11,538</b>	<b>\$12,446</b>	<b>\$13,624</b>	<b>\$14,978</b>	<b>\$16,390</b>	<b>\$17,772</b>	<b>\$19,096</b>	<b>\$20,519</b>
Less: Accounts payable	(7,612)	(9,608)	(10,177)	(11,144)	(12,258)	(13,423)	(14,564)	(15,656)	(16,830)
Less: Accrued Salaries and Benefits	(2,629)	(2,703)	(2,944)	(3,223)	(3,543)	(3,877)	(4,204)	(4,517)	(4,854)
Less: Accrued Member Rewards	(869)	(961)	(855)	(855)	(856)	(856)	(857)	(857)	(858)
Less: Deferred Membership Fees	(1,362)	(1,498)	(1,580)	(1,729)	(1,901)	(2,080)	(2,255)	(2,423)	(2,604)
Less: Other Current Liabilities	(2,003)	(2,639)	(2,520)	(2,758)	(3,032)	(3,318)	(3,598)	(3,866)	(4,154)
<b>Net Working Capital</b>	<b>(\$3,986)</b>	<b>(\$5,871)</b>	<b>(\$5,630)</b>	<b>(\$6,085)</b>	<b>(\$6,612)</b>	<b>(\$7,164)</b>	<b>(\$7,706)</b>	<b>(\$8,223)</b>	<b>(\$8,780)</b>

Discount Rate	Perp. Growth
7.6%	2.00%
8.1%	2.50%
8.6%	3.00%

	Discounted Cash Flows					
	1	2	3	4	5	6
7.63%	\$2,725	\$2,862	\$2,821	\$2,732	\$2,636	\$2,586
8.13%	2,713	2,836	2,782	2,682	2,576	2,515
8.63%	2,700	2,810	2,744	2,633	2,517	2,446

Step

# Appendix

## Appendix B. Comparable Company Data

### Costco Wholesale Corp

#### Comparable Company Analysis

Name	Ticker	Mkt Cap (\$M)	P/E	EPS FY1 (\$)	P/B	BPS FY1	EV / EBITDA	EBITDA FY1 (\$M)
WAL-MART STORES INC	WMT US	253,819	19.51x	5.01	3.26x	27.83	9.01x	33,241.49
TARGET CORP	TGT US	38,535	15.18x	5.28	3.31x	22.46	7.39x	6,618.64
DOLLAR GENERAL CORP	DG US	25,856	20.99x	6.17	4.22x	27.33	11.03x	2,669.70
DOLLAR TREE INC	DLTR US	23,052	20.41x	5.79	3.19x	36.95	10.22x	2,659.86
FIVE BELOW	FIVE US	4,174	40.89x	2.52	9.10x	9.56	17.78x	228.61
BIG LOTS INC	BIG US	1,773	9.46x	4.96	2.63x	17.95		403.73
DOLLARAMA INC	DOL CN	12,927	32.59x	4.17		(2.21)	20.23x	714.97
KROGER CO	KR US	20,550	14.19x	2.10	2.98x	9.33		5,411.39
AMAZON.COM INC	AMZN US	692,656	313.82x	17.54	24.99x	79.50	26.56x	28,649.27
	<b>Mean</b>	<b>89.5</b>	<b>44.78x</b>	<b>5.07</b>	<b>5.87x</b>	<b>20.94</b>	<b>13.41x</b>	<b>8,320.26</b>
	<b>Mean ex. AMZN</b>	<b>47.6</b>	<b>21.65x</b>	<b>4.50</b>	<b>4.10x</b>	<b>18.65</b>	<b>12.61x</b>	<b>6,493.55</b>
	<b>Median</b>	<b>23.1</b>	<b>20.41x</b>	<b>5.01</b>	<b>3.28x</b>	<b>22.46</b>	<b>11.03x</b>	<b>2,669.70</b>
COSTCO WHOLESALE CORP	COST US	82,898	28.96x	7.39	7.05x	31.88	13.84x	6,236.66

COST Shrs. Out. (Million)

438.6

## Appendix C. WACC Calculation

WACC Calculation	
Current Stock Price	\$188.91
Book Debt Value	6,666
Market Equity Value	83,297,409
Debt + Equity	83,304,075
US 10 year (Rf)	2.25%
Tax rate	34%
Return on the Market	8%
Beta	1.023
Cost of Equity	8.13%
Cost of Debt	2.01%
<b>WACC</b>	<b>8.13%</b>

# Appendix

## Appendix D. DCF Input Data

### Costco Wholesale Corp

#### Financial Projections

(Dollars in Millions, Except Per Share Amounts)

	Projections										
	Fiscal Year Ending December 31										
	2014A	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E	2023E	2024E
<b>Total Revenues</b>	\$112,640	\$116,199	\$118,719	\$129,025	\$139,978	\$153,230	\$168,453	\$184,331	\$199,867	\$214,758	\$230,761
<b>Net Sales</b>	\$110,212	\$113,666	\$116,073	\$126,172	\$136,897	\$149,902	\$164,892	\$180,557	\$195,904	\$210,597	\$226,392
<b>Membership Fees</b>	\$2,428	\$2,533	\$2,646	\$2,853	\$3,081	\$3,328	\$3,561	\$3,774	\$3,963	\$4,161	\$4,369
<b>Total Costs of Revenues</b>	(\$98,458)	(\$101,065)	(\$102,901)	(\$111,882)	(\$121,427)	(\$132,963)	(\$146,259)	(\$160,154)	(\$173,767)	(\$186,799)	(\$200,809)
<b>Merchandise Costs</b>	(\$98,458)	(\$101,065)	(\$102,901)	(\$111,882)	(\$121,427)	(\$132,963)	(\$146,259)	(\$160,154)	(\$173,767)	(\$186,799)	(\$200,809)
<b>SG&amp;A</b>	(\$10,899)	(\$11,445)	(\$12,068)	(\$12,950)	(\$13,998)	(\$15,323)	(\$16,845)	(\$18,433)	(\$19,987)	(\$21,476)	(\$23,076)
<b>Other Nonoperating Income and (Expenses)</b>	(\$63)	(\$65)	(\$78)	(\$133)	(\$140)	(\$153)	--	--	--	--	--
<b>Tax Rate</b>	34.0%	33.0%	34.0%	34.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
<b>Accounts Receivable</b>	\$1,148	\$1,224	\$1,252	\$1,432	\$1,534	\$1,679	\$1,846	\$2,020	\$2,190	\$2,354	\$2,529
<b>Inventories</b>	\$8,456	\$8,908	\$8,969	\$9,834	\$10,638	\$11,645	\$12,802	\$14,009	\$15,190	\$16,322	\$17,538
<b>Other Current Assets</b>	\$669	\$228	\$268	\$272	\$274	\$300	\$330	\$361	\$392	\$421	\$453
<b>Accounts Payable</b>	\$8,491	\$9,011	\$7,612	\$9,608	\$10,177	\$11,144	\$12,258	\$13,423	\$14,564	\$15,656	\$16,830
<b>Accrued Salaries, Benefits</b>	\$2,231	\$2,468	\$2,629	\$2,703	\$2,944	\$3,223	\$3,543	\$3,877	\$4,204	\$4,517	\$4,854
<b>Accrued member rewards</b>	\$773	\$813	\$869	\$961	\$855	\$855	\$856	\$856	\$857	\$857	\$858
<b>Deferred Membership Fees</b>	\$1,254	\$1,269	\$1,362	\$1,498	\$1,580	\$1,729	\$1,901	\$2,080	\$2,255	\$2,423	\$2,604
<b>Other Current Liabilities</b>	\$1,221	\$1,695	\$2,003	\$2,639	\$2,520	\$2,758	\$3,032	\$3,318	\$3,598	\$3,866	\$4,154
<b>Depreciation, Depletion and Amortization</b>	\$1,029	\$1,127	\$1,255	\$1,370	\$1,540	\$1,605	\$1,764	\$1,930	\$2,093	\$2,249	\$2,417
<b>Capex</b>	(\$1,993)	(\$2,393)	(\$2,649)	(\$2,502)	(\$2,660)	(\$2,911)	(\$3,201)	(\$3,502)	(\$3,797)	(\$4,080)	(\$4,384)



# Appendix

## Appendix E. Historical Income Statement

COSTCO WHOLESALE CORP (COST) CashFlowFlag INCOME STATEMENT						
USD in millions except per share data.	2013-08	2014-08	2015-08	2016-08	2017-08	TTM
Revenue	105,156	112,640	116,199	118,719	129,025	135,964
Cost of revenue	91,948	98,458	101,065	102,901	111,882	118,017
Gross profit	13,208	14,182	15,134	15,818	17,143	17,947
Operating expenses						
Sales, General and administrative	10,104	10,899	11,445	12,068	12,950	13,488
Other operating expenses	51	63	65	78	82	74
Total operating expenses	10,155	10,962	11,510	12,146	13,032	13,562
Operating income	3,053	3,220	3,624	3,672	4,111	4,385
Interest Expense	99	113	124	133	134	148
Other income (expense)	97	90	104	80	62	69
Income before income taxes	3,051	3,197	3,604	3,619	4,039	4,306
Provision for income taxes	990	1,109	1,195	1,243	1,325	1,304
Minority interest	22	30	32	26	35	42
Other income	22	30	32	26	35	42
Net income from continuing operations	2,061	2,088	2,409	2,376	2,714	3,002
Other	(22)	(30)	(32)	(26)	(35)	(42)
Net income	2,039	2,058	2,377	2,350	2,679	2,960
Net income available to common shareholders	2,039	2,058	2,377	2,350	2,679	2,960
<b>Earnings per share</b>						
Basic	5	5	5	5	6	7
Diluted	5	5	5	5	6	7
<b>Weighted average shares outstanding</b>						
Basic	436	439	439	439	438	438
Diluted	441	442	443	441	441	441
EBITDA	4,096	4,339	4,855	5,007	5,543	5,894

# Appendix

## Appendix F. Historical Balance Sheet

COSTCO WHOLESALE CORP (COST) BALANCE SHEET					
USD in millions except per share data.	2013-08	2014-08	2015-08	2016-08	2017-08
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	4,644	5,738	4,801	3,379	4,546
Short-term investments	1,480	1,577	1,618	1,350	1,233
Total cash	6,124	7,315	6,419	4,729	5,779
Receivables	1,201	1,148	1,224	1,252	1,432
Inventories	7,894	8,456	8,908	8,969	9,834
Deferred income taxes	621	669	748		
Other current assets				268	272
Total current assets	15,840	17,588	17,299	15,218	17,317
<b>Non-current assets</b>					
Property, plant and equipment					
Land	4,409	4,716	4,961	5,395	5,690
Fixtures and equipment	4,472	4,845	5,274	6,077	6,681
Other properties	12,141	13,114	13,429	14,695	15,970
Property and equipment, at cost	21,022	22,675	23,664	26,167	28,341
Accumulated Depreciation	(7,141)	(7,845)	(8,263)	(9,124)	(10,180)
Property, plant and equipment, net	13,881	14,830	15,401	17,043	18,161
Goodwill	63				
Other long-term assets	499	606	740	902	869
Total non-current assets	14,443	15,436	16,141	17,945	19,030
Total assets	30,283	33,024	33,440	33,163	36,347
<b>Liabilities and stockholders' equity</b>					
<b>Liabilities</b>					
<b>Current liabilities</b>					
Short-term debt			1,283	1,100	86
Accounts payable	7,872	8,491	9,011	7,612	9,608
Deferred income taxes	77	136			
Accrued liabilities	1,092	1,215	1,304	1,401	961
Other current liabilities	4,216	4,570	4,942	5,462	6,840
Total current liabilities	13,257	14,412	16,540	15,575	17,495
<b>Non-current liabilities</b>					
Long-term debt	4,998	5,093	4,864	4,061	6,573
Deferred taxes liabilities	1,016	1,004	1,193		
Minority interest	179	212	226	253	301
Other long-term liabilities	(179)	(212)	(226)	942	899
Total non-current liabilities	6,014	6,097	6,057	5,256	7,773
Total liabilities	19,271	20,509	22,597	20,831	25,268
<b>Stockholders' equity</b>					
Common stock	2	2	2	2	4
Additional paid-in capital	4,670	4,919	5,218	5,490	5,800
Retained earnings	6,283	7,458	6,518	7,686	5,988
Accumulated other comprehensive income	(122)	(76)	(1,121)	(1,099)	(1,014)
Total stockholders' equity	10,833	12,303	10,617	12,079	10,778
Total liabilities and stockholders' equity	30,104	32,812	33,214	32,910	36,046

# Appendix

## Appendix G. Historical Statement of Cash Flow

COSTCO WHOLESALE CORP (COST) Statement of CASH FLOW						
Fiscal year ends in August. USD in millions except per share data.	2013-08	2014-08	2015-08	2016-08	2017-08	TTM
<b>Cash Flows From Operating Activities</b>						
Depreciation & amortization	946	1,029	1,127	1,255	1,370	1,440
Deferred income taxes	7	(63)	(101)	269	(29)	(138)
Stock based compensation	285	327	394	459	514	538
Inventory	(898)	(563)	(890)	(25)	(894)	(961)
Accounts payable	718	529	880	(1,532)	2,258	1,165
Other working capital	386	699	557	547	807	464
Other non-cash items	1,993	2,026	2,318	2,319	2,700	3,047
Net cash provided by operating activities	3,437	3,984	4,285	3,292	6,726	5,555
<b>Cash Flows From Investing Activities</b>						
Investments in property, plant, and equipment	(2,083)	(1,993)	(2,393)	(2,649)	(2,502)	(2,647)
Purchases of investments	(2,572)	(2,503)	(1,501)	(1,432)	(1,279)	(1,061)
Sales/Maturities of investments	2,385	2,406	1,434	1,709	1,385	1,239
Other investing charges	19	(3)	(20)	27	30	(3)
Net cash used for investing activities	(2,251)	(2,093)	(2,480)	(2,345)	(2,366)	(2,472)
<b>Cash Flows From Financing Activities</b>						
Short-term borrowing	(31)	61	(45)	81	(236)	3
Long-term debt issued	3,717	117	1,125	185	3,782	
Long-term debt repayment				(1,288)	(2,200)	(2,258)
Excess tax benefit from stock based compensation	61	84	86	74	38	
Repurchases of treasury stock	(36)	(334)	(481)	(486)	(469)	(463)
Cash dividends paid	(3,560)	(584)	(2,865)	(746)	(3,904)	(3,926)
Other financing activities	(107)	(130)	(144)	(239)	(229)	3,503
Net cash provided by (used for) financing activities	44	(786)	(2,324)	(2,419)	(3,218)	(3,141)
Effect of exchange rate changes	(114)	(11)	(418)	50	25	95
Net change in cash	1,116	1,094	(937)	(1,422)	1,167	37
Cash at beginning of period	3,528	4,644	5,738	4,801	3,379	4,744
Cash at end of period	4,644	5,738	4,801	3,379	4,546	4,781
<b>Free Cash Flow</b>						
Operating cash flow	3,437	3,984	4,285	3,292	6,726	5,555
Capital expenditure	(2,083)	(1,993)	(2,393)	(2,649)	(2,502)	(2,647)
Free cash flow	1,354	1,991	1,892	643	4,224	2,908
<b>Supplemental schedule of cash flow data</b>						
Cash paid for income taxes	1,001	869	1,186	953	1,185	1,388
Cash paid for interest	86	109	117	123	131	155