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## Costco Wholesale Corporation (COST-US)

### Food & Staples Retailing

- We reiterate our Buy rating as COST continues to perform well in a difficult retail environment.
- COST's unique shopping experience, value proposition, loyal customer base, and ability to manage its supply chain and inventory continue to drive strong Business Performance trends.
- COST's dominant position in warehouse based retail, along with its ability to optimally manage its supply chain and inventory continues to drive its competitive advantage.
- COST's ongoing global expansion continues to drive incremental growth.
- COST continues to expand its global e-commerce capabilities and delivery service offerings.
- COST continues to maximize its balance sheet and cash flow to drive growth and enhance shareholder returns through ongoing dividend increases and share repurchases.

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**Company Note**
**Costco Wholesale Corporation (COST-US)**
**Food & Staples Retailing**

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**Research Action:**

Reiterate rating

**Rating:** Buy

**Prior Rating:** Buy

**Price 07/23/2020:** \$326.11

**52 Week High /** \$331.49

**Low:** \$262.71

**Key Data: (TTM as of May-20)**
**Excess Cash per Share:** \$8.43

**Annual Dividend:** \$2.80

**Dividend Yield:** 0.86%

**Avg. Volume (30 Day):** 2.3M

**Shares Outstanding:** 441.5M

**Float:** 440.4M

**Short Interest:** 3.9M

**SI % / Float** 0.89%

**Equity MV:** \$143,985.4M

**Sales TTM:** \$160,876.0M

**Beta:** 0.91

**EBITDAR:** \$7,372.3M

**NOPAT:** \$4,143.2M

**Total Invested Capital:** \$34,435.2M

**Return on Capital:** 15.49%

**Cost of Capital:** 3.33%

**Economic Profit:** \$3,252.7M

**Market Value Added:** \$125,186.9M

**Current Operations Value:** \$124,475.2M

**Future Growth Value:** \$35,146.9M

- We reiterate our Buy rating as COST continues to perform well in a difficult retail environment.** While many other retailers have struggled in the current COVID-19 pandemic environment, COST has benefited by many of the underlying pandemic trends, including work-at-home, learn-at-home, entertain-at-home, and stay-at-home. COST's dominant warehouse position, unique value proposition, and shopping experience, as well as its ability to manage its supply chain and inventory, continue to drive its competitive advantage. During the initial part of the pandemic, COST's ability to manage its supply chain enabled it to meet increasing consumer demand for staple items. COST continued to report strong same-store sales increases over the past few months while many other retailers struggled, especially during store shutdowns. COST recently reported an 11.4% same-store sales increase in June versus an expected increase of 4.2%. June's strong gains were driven by an increase in ongoing state re-openings and followed a 5.4% increase in May, versus the 1.6% increase expected. COST is also benefiting from increasing e-commerce demand, helped by the ongoing expansion of its delivery options and capabilities. New store openings will continue to be an incremental growth driver as COST continues to drive growth through both its global store expansion and new e-commerce initiatives, especially expanding its same-day delivery service options. COST also makes strategic acquisitions to further enhance and services capabilities. In March, COST acquired a minority stake in Navitus Health Solutions, further expanding its pharmacy benefits services, and acquired logistics service provider Innovel Solutions to expand its warehouse and fulfillment capabilities. COST continues to be the dominant warehouse retailer, driven by its expansive and high-quality inventory of merchandise. COST's unique shopping experience, value proposition, competitive pricing, and the ongoing opening of new warehouse clubs drive its ability to generate an above-average Return on Capital and increasing Economic Profit. COST continues to maximize its balance sheet and cash flow to invest in new growth initiatives as well as enhancing shareholder returns through ongoing dividend increases and share repurchases. In April, at a time when many companies were cutting or limiting dividends, COST announced an 8% increase to its quarterly dividend. We believe further upside exists from current levels and continue to recommend purchase.

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- **COST's unique shopping experience, value proposition, loyal customer base, and ability to manage its supply chain and inventory continue to drive strong Business Performance trends.** For the 12 months ending May 2020, Net Sales Revenue increased 7.28% Y/Y from \$149.62 billion to \$160.88 billion. We forecast a further increase of 7.26% to \$172.55 billion over the NTM. Economic Operating Cash Flow (EBITDAR) increased 10.28% Y/Y from \$6.69 billion to \$7.37 billion over the LTM. We forecast a further increase of 6.11% to \$7.82 billion over the NTM. Net Operating Profit After Tax (NOPAT) increased 7.94% Y/Y from \$3.84 billion to \$4.14 billion over the LTM. We forecast a further increase of 6.942% to \$4.43 billion over the NTM. Return on Capital (ROC) declined from 18.05% to 15.49% over the LTM. We forecast a further decline to 13.70% over the NTM. Economic Profit increased 15.23% Y/Y from \$2.82 billion to \$3.25 billion over the LTM. We forecast a further increase of 7.36% to \$3.49 billion over the NTM. COST's ongoing ability to produce an above-average Return on Capital (ROC) and grow Economic Profit will continue to drive increasing shareholder value creation.
- **COST's dominant position in warehouse based retail, along with its ability to optimally manage its supply chain and inventory continues to drive its competitive advantage.** COST is the world's largest operator of membership warehouses based on the total number of stores and total square feet. COST also offers a diverse inventory of high-quality brand names and private-label products across multiple categories at heavily discounted as well as value-based pricing on brand-name products. COST value pricing and broad product inventory has driven its loyal membership customer base and attracts customers across an extremely broad economic spectrum. During the initial COVID-19 outbreak, COST was able to meet the increasing demand for staple items. In addition, COST continues to expand its product offerings with increasing upscale brand partnerships, furthering its treasure hunt-like shopping experience. COST continuously adds new brands across all product categories and price points that drive increasing in-store visits and online purchases. COST has added increasing numbers of new products in key categories, including home furnishings, appliances, apparel, food, as well as partnerships and travel, automobile purchases, and business services. COST provides its members with an upscale shopping experience with warehouse level discount prices. The treasure hunt-like shopping experience created by COST's ongoing rotation of luxury goods and new inventory, including electronics, home furnishings, and apparel, drives COST shoppers to spend much more time going through all the aisles because they never know what new merchandise they will find. The longer customers stay in the store, the more merchandise they tend to buy.

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- **COST's ongoing global expansion continues to drive incremental growth.** COST continues to open new warehouse clubs in the U.S. and international markets. COST opened its first store in Shanghai, China, in August 2018. COST plans on opening its second Shanghai store after experiencing a huge reception for its first Shanghai store. China's rapidly growing and upwardly mobile middle-class creates a significant opportunity. COST has significantly higher sales-per-square-foot growth than many of its big-box competitors. COST is also focusing on increasing consumer demand in developing markets, especially Asia, Japan, Korea, and Taiwan. COST also offers auto service, food courts, and other services like eye exams and pharmacies, along with product demonstrations and samplings of grocery items that add to the in-store shopping experience.
- **COST continues to expand its global e-commerce capabilities and delivery service offerings.** COST has been rapidly expanding its e-commerce and omnichannel fulfillment capabilities internationally as well as in the U.S. Through Costco Grocery delivery, customers can get two-day delivery on non-perishable food and other household supplies, as well as same-day delivery through its partnership with Instacart on fresh and packaged food. COST has seen significant gains in its e-commerce business through its delivery service. COST also offers same-day prescription and alcohol delivery through Instacart. In March of this year, COST acquired Innoval Solutions, a leading provider of third-party end to end logistics solutions. The acquisition expands COST's e-commerce capabilities to provide delivery of large and bulky items, including appliances, fitness equipment, furniture, grills, mattresses, patio furniture, and large-screen televisions. COST has benefited from a surge in demand in many of these items due to COVID-19-driven work-at-home, learn-at-home, entertain-at-home, and stay-at-home trends. Also, in March, COST acquired a minority stake in Navitus Health Solutions, further expanding its pharmacy benefits services. Costco's purchase also includes partnering with Lumicera Health Services, its specialty pharmacy subsidiary, to provide low-cost prescription fulfillment, and to increase transparency and customer service. Navitus currently serves over six million patients across the U.S., including employers, health plans, and state and municipal governments. COST e-commerce initiatives have increased market share penetration as well as both online and in-store traffic.

- **COST continues to maximize its balance sheet and cash flow to drive growth and enhance shareholder returns through ongoing dividend increases and share repurchases.** As of May 2020, COST had \$3.73 billion, \$8.43 per share, in excess cash which, along with our expectations that it will generate \$7.82 billion in Economic Operating Cash Flow over the NTM, which will enable it to fund its growth initiatives including strategic acquisitions and new store openings along with the ongoing return of cash to shareholders. COST continues to make strategic acquisitions to enhance its services capabilities. In March of this year, COST acquired a minority stake in Navitus Health Solutions, further expanding its pharmacy benefits services and acquired logistics service provider Innovel Solutions to expand its warehouse and fulfillment capabilities. In April of this year, at a time when many companies were cutting or eliminating dividends, COST increased its quarterly dividend by almost 8 % from \$0.65 per share to \$0.70 per share, which followed a 14% increase in 2019. COST also continues to use its excess cash to repurchase shares, including repurchasing \$34 million worth of stock in the most recent quarter.

#### **Investment Thesis**

COST's unique and differentiated shopping experience continues to drive strong same-store sales and membership growth. In addition, COST's loyal membership base, highlighted by its members' commitment and willingness to pay a fee to shop in its warehouse club stores are motivated by its competitive pricing, broad merchandise assortment, value-based private-label offerings, and the treasure hunt-like experience COST provides because they never know what they are going to find. COST offers an upscale shopping experience as its merchandise includes high-end luxury goods as well as value-priced groceries. We believe COST's expanding e-commerce and delivery services, along with its ongoing store footprint expansion, will continue to drive future revenue growth, profitability, and long-term shareholder value creation.

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**Company Overview**

**Costco Wholesale Corp. (COST-US)** is the world's largest operator of membership warehouse club stores, offering discount prices on larger package purchases of nationally-branded and private-label food and general merchandise, along with clothing, furniture, household products, tires, auto accessories, and appliances. Costco offers pharmacy, hearing aid, and optical services, and operates discount Costco Gas Stations and Car Washes at some locations. Costco also offers its members auto service, insurance, travel services home improvement, and mortgage services as well as business services, including phone service and credit card clearing services. Costco operates an e-commerce site, Costco.com, offering access to products like furniture and electronics not available in its stores to both members and non-members, creating new opportunities for customer acquisition. Costco sells products in China through Alibaba's Tmall site and other e-commerce websites, including Google Express, Instacart, Boxed, and Jet.com, offering Costco products for delivery.

As of June 2020, Costco has a total of 788 warehouse stores: in the U.S., it has 548 locations in 45 states & Puerto Rico, as well as 100 locations in nine Canadian provinces, 39 locations in Mexico, 29 locations in the United Kingdom, 26 locations in Japan, 16 locations in Korea, 13 locations in Taiwan, 12 locations in Australia, 2 locations in Spain, 1 location in China, 1 location in Iceland, and 1 location in France. Costco warehouse stores range in size from 75,000 to 205,000 square feet. Its average store is 144,500 square feet.

Costco generates revenue from Store Sales (97.8% of revenue) and Membership Fees (2.2% of revenue). Costco offers three types of memberships: Goldstar (individual consumer), Business, and Executive, which offers a 2% rebate on annual purchases. As of its most recent reported quarter, Costco has a membership base of 55.8 million households and 101.8 million total cardholders and had a 91% membership renewal rate.

**Costco operates and reports revenue by five Business Segment:**

**Food & Sundries** (40% of revenue) which includes dry and packaged foods along with alcoholic and non-alcoholic beverages, candy, snack food, cleaning, and institutional supplies.

**Ancillary** (19% of revenue) which includes a food court, gas stations, pharmacy, and optical.

**Hardlines** (17% of revenue) which includes electronics, health and beauty products, garden and patio, hardware, major appliances, and office supplies.

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**Fresh Foods** (13% of revenue), which includes baked goods, deli, meat, and produce.

**Softlines** (11% of revenue) which includes apparel, home furnishings, and small appliances.

**Costco reports revenue by three Geographic Segments:** United States (73% of revenue), Canada (14% of revenue), and Other International Operations (13% of revenue).



Costco Wholesale Corporation (COST-US)

Food & Staples Retailing

Financial Data

Report Basis	LTM	LTM	LTM	LTM	LTM	LTM	LTM	NTM	5 Yr	3 Yr	Current
Reported Period Ending	05/10/2015	05/08/2016	05/07/2017	05/13/2018	05/12/2019	05/10/2020	05/31/2021		Average	Average	Trend
<b>Net Sales Revenue</b>	\$115,944.0	\$117,937.0	\$123,285.0	\$139,465.0	\$149,616.0	\$160,876.0	\$172,548.4	\$172,548.4	\$138,235.8	\$149,985.7	\$166,712.2
Sales Growth	5.78%	1.72%	4.53%	13.12%	7.28%	7.53%	7.26%	7.26%	6.84%	9.31%	7.39%
Sales Growth Trend	5.27%	3.35%	3.41%	9.69%	9.62%	7.43%	7.36%	7.36%	6.70%	8.91%	7.40%
<b>Economic Operating Cash Flow (EBITDAR)</b>	\$5,050.6	\$5,252.2	\$5,570.9	\$6,346.5	\$6,685.0	\$7,372.3	\$7,822.9	\$7,822.9	\$6,245.4	\$6,801.3	\$7,597.6
EBITDAR Margin	4.36%	4.45%	4.52%	4.55%	4.47%	4.58%	4.53%	4.53%	4.51%	4.53%	4.56%
EBITDAR Growth	12.32%	3.99%	6.07%	13.92%	5.33%	10.28%	6.11%	6.11%	7.92%	9.85%	8.20%
<b>Net Operating Profit Before Tax (NOPBT)</b>	\$3,723.6	\$3,802.2	\$3,983.9	\$4,641.5	\$4,970.0	\$5,491.3	\$5,788.0	\$5,788.0	\$4,577.8	\$5,034.3	\$5,639.7
NOPBT Margin	3.21%	3.22%	3.23%	3.33%	3.32%	3.41%	3.35%	3.35%	3.30%	3.35%	3.38%
NOPBT Growth	13.92%	2.11%	4.78%	16.50%	7.08%	10.49%	5.40%	5.40%	8.19%	11.36%	7.95%
<b>Cash Operating Income Tax</b>	\$1,228.8	\$1,254.7	\$1,293.4	\$1,424.4	\$1,131.5	\$1,348.1	\$1,357.3	\$1,357.3	\$1,290.4	\$1,301.3	\$1,352.7
Economic Tax Effective Rate	33.00%	33.00%	32.47%	30.69%	22.77%	24.55%	23.45%	23.45%	28.69%	26.00%	24.00%
<b>Net Operating Profit After Tax (NOPAT)</b>	\$2,494.8	\$2,547.5	\$2,690.5	\$3,217.0	\$3,838.6	\$4,143.2	\$4,430.7	\$4,430.7	\$3,287.4	\$3,732.9	\$4,287.0
NOPAT Margin	2.15%	2.16%	2.18%	2.31%	2.57%	2.58%	2.57%	2.57%	2.36%	2.48%	2.57%
NOPAT Growth	13.92%	2.11%	5.62%	19.57%	19.32%	7.94%	6.94%	6.94%	10.91%	15.61%	7.44%
<b>Cash &amp; Equivalents</b>	\$6,805.0	\$6,021.0	\$5,725.0	\$7,044.0	\$8,167.0	\$11,774.0	\$12,641.0	\$12,641.0	\$7,746.2	\$8,995.0	\$12,207.5
<b>Total Assets</b>	\$33,491.0	\$33,873.0	\$35,631.0	\$39,605.0	\$43,752.0	\$51,732.0	\$55,541.4	\$55,541.4	\$40,918.6	\$45,029.7	\$53,636.7
<b>Non - Interest Bearing Liabilities (NIBLs)</b>	\$14,491.0	\$14,613.0	\$18,953.0	\$17,969.0	\$19,546.0	\$18,772.0	\$20,154.3	\$20,154.3	\$17,970.6	\$18,762.3	\$19,463.2
<b>Net Assets</b>	\$18,773.0	\$19,017.0	\$16,391.0	\$21,332.0	\$23,872.0	\$32,559.0	\$34,956.5	\$34,956.5	\$22,634.2	\$25,921.0	\$33,757.8
<b>Economic Asset Adjustments</b>	\$1,911.1	\$1,920.9	\$1,899.6	\$1,569.2	\$1,338.4	\$1,876.2	\$2,014.3	\$2,014.3	\$1,720.8	\$1,594.6	\$1,945.3
<b>Net Operating Assets</b>	\$20,684.1	\$20,937.9	\$18,290.6	\$22,901.2	\$25,210.4	\$34,435.2	\$36,970.9	\$36,970.9	\$24,355.0	\$27,515.6	\$35,703.0
<b>Debt &amp; Debt Equivalents</b>	\$8,670.1	\$7,741.9	\$6,681.6	\$9,131.2	\$9,248.4	\$15,460.2	\$16,598.6	\$16,598.6	\$9,652.6	\$11,279.9	\$16,029.4
<b>Equity &amp; Equivalents</b>	\$10,587.0	\$11,505.0	\$9,898.0	\$12,143.0	\$14,486.0	\$16,802.0	\$18,039.2	\$18,039.2	\$12,966.8	\$14,477.0	\$17,420.6
<b>Total Capital - Financing Sources</b>	\$19,257.1	\$19,246.9	\$16,579.6	\$21,274.2	\$23,734.4	\$32,262.2	\$34,637.9	\$34,637.9	\$22,619.4	\$25,756.9	\$33,450.0
<b>Capital Adjustments</b>	(\$733.0)	(\$707.0)	(\$803.0)	(\$1,070.0)	(\$1,412.0)	(\$1,073.0)	(\$1,152.0)	(\$1,152.0)	(\$1,013.0)	(\$1,185.0)	(\$1,112.5)
<b>Net Capital Financing Sources</b>	\$18,524.1	\$18,539.9	\$15,776.6	\$20,204.2	\$22,322.4	\$31,189.2	\$33,485.9	\$33,485.9	\$21,606.4	\$24,571.9	\$32,337.5
<b>Net Working Capital</b>	\$3,250.2	\$3,009.9	(\$26.8)	\$2,908.3	\$3,353.8	\$3,739.8	\$4,015.2	\$4,015.2	\$2,597.0	\$3,334.0	\$3,877.5
Cost of Net Working Capital	\$156.9	\$131.3	\$73.4	\$79.3	\$149.6	\$118.1	\$126.8	\$126.8	\$110.3	\$115.6	\$122.4
% of Revenue	0.14%	0.11%	0.06%	0.06%	0.10%	0.07%	0.07%	0.07%	0.08%	0.08%	0.07%
<b>Operational Capital</b>	\$20,244.3	\$21,421.7	\$19,407.8	\$23,655.5	\$25,167.2	\$29,892.0	\$32,093.1	\$32,093.1	\$23,908.8	\$26,238.2	\$30,992.6
Cost of Operational Capital	\$976.1	\$874.1	\$1,004.3	\$1,184.7	\$1,166.2	\$916.3	\$983.8	\$983.8	\$1,029.1	\$1,089.1	\$950.1
% of Revenue	0.84%	0.74%	0.81%	0.85%	0.78%	0.57%	0.57%	0.57%	0.75%	0.73%	0.57%
<b>Productive Capital</b>	\$20,244.3	\$21,421.7	\$19,407.8	\$23,655.5	\$25,167.2	\$29,892.0	\$32,093.1	\$32,093.1	\$23,908.8	\$26,238.2	\$30,992.6
Cost of Productive Capital	\$976.1	\$874.1	\$1,004.3	\$1,184.7	\$1,166.2	\$916.3	\$983.8	\$983.8	\$1,029.1	\$1,089.1	\$950.1
% of Revenue	0.84%	0.74%	0.81%	0.85%	0.78%	0.57%	0.57%	0.57%	0.75%	0.73%	0.57%
<b>Total Operating Capital</b>	\$19,676.3	\$20,813.7	\$18,729.8	\$22,830.5	\$24,524.2	\$30,705.0	\$32,966.0	\$32,966.0	\$23,520.6	\$26,019.9	\$31,835.5
Cost of Total Operating Capital	\$946.7	\$849.5	\$972.6	\$1,143.4	\$1,131.2	\$919.2	\$986.9	\$986.9	\$1,003.2	\$1,064.6	\$953.0
% of Revenue	0.82%	0.72%	0.79%	0.82%	0.76%	0.57%	0.57%	0.57%	0.73%	0.72%	0.57%
<b>Non - Operating Capital</b>	\$1,007.8	\$124.2	(\$439.3)	\$70.8	\$686.2	\$3,730.2	\$4,004.9	\$4,004.9	\$834.4	\$1,495.7	\$3,867.5
Cost of Non - Operating Capital	\$69.2	\$23.7	(\$7.8)	(\$10.1)	\$18.1	\$73.5	\$78.9	\$78.9	\$19.5	\$27.1	\$76.2
% of Revenue	0.06%	0.02%	-0.01%	-0.01%	0.01%	0.05%	0.05%	0.05%	0.01%	0.02%	0.05%
<b>Total Capital</b>	\$20,684.1	\$20,937.9	\$18,290.6	\$22,901.2	\$25,210.4	\$34,435.2	\$36,970.9	\$36,970.9	\$24,355.0	\$27,515.6	\$35,703.0
Cost of Total Capital	\$1,015.8	\$873.2	\$964.9	\$1,133.2	\$1,149.2	\$992.7	\$1,065.8	\$1,065.8	\$1,022.7	\$1,091.7	\$1,029.2
% of Revenue	0.88%	0.74%	0.78%	0.81%	0.77%	0.62%	0.62%	0.62%	0.74%	0.73%	0.62%
<b>Cost of Capital (WACC)</b>	4.93%	4.20%	4.92%	5.50%	4.78%	3.33%	3.33%	3.33%	4.54%	4.54%	3.33%
<b>Capital Structure</b>											
<b>Debt &amp; Debt Equivalents</b>	\$8,670.1	\$7,741.9	\$6,681.6	\$9,131.2	\$9,248.4	\$15,460.2	\$16,598.6	\$16,598.6	\$9,652.6	\$11,279.9	\$16,029.4
Debt & Debt Equivalents % of Market Value	11.90%	10.75%	7.79%	9.61%	7.84%	10.27%	10.27%	10.27%	9.26%	9.31%	10.27%
<b>Preferred Equity</b>	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Preferred Equity % of Market Value	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Market Value of Common Equity</b>	\$64,183.4	\$64,292.3	\$79,097.2	\$85,903.4	\$108,659.2	\$135,097.0	\$145,045.1	\$145,045.1	\$94,609.8	\$109,886.5	\$140,071.0
Common Equity % of Market Value	88.10%	89.25%	92.21%	90.39%	92.16%	89.73%	89.73%	89.73%	90.74%	90.69%	89.73%
<b>Total Economic Market Value (MV)</b>	\$72,853.5	\$72,034.2	\$85,778.7	\$95,034.6	\$117,907.5	\$150,557.2	\$161,643.7	\$161,643.7	\$104,262.4	\$121,166.4	\$156,100.4
Total %	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
<b>Excess Cash</b>	\$1,007.8	\$124.2	(\$439.3)	\$70.8	\$686.2	\$3,730.2	\$4,004.9	\$4,004.9	\$834.4	\$1,495.7	\$3,867.5
<b>Economic Enterprise Value</b>	\$71,845.7	\$71,910.0	\$86,218.0	\$94,963.9	\$117,221.3	\$146,827.0	\$157,638.8	\$157,638.8	\$103,428.0	\$119,670.7	\$152,232.9
<b>Average Capital</b>	\$18,477.5	\$18,532.0	\$17,158.2	\$17,990.4	\$21,263.3	\$26,755.8	\$32,337.5	\$32,337.5	\$20,339.9	\$22,003.2	\$29,546.6
Capital Δ	\$93.2	\$15.8	(\$2,763.3)	\$4,427.7	\$2,118.1	\$8,866.8	\$2,296.7	\$2,296.7	\$2,533.0	\$5,137.5	\$5,581.7

Source: Company Data, Financial statements and Tigress Research

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Company Report – Research Update

Costco Wholesale Corporation (COST-US)

Food & Staples Retailing

Financial Analysis

Report Basis	LTM	LTM	LTM	LTM	LTM	LTM	NTM	5 Yr	3 Yr	Current
Reported Period Ending	05/10/2015	05/08/2016	05/07/2017	05/13/2018	05/12/2019	05/10/2020	05/31/2021	Average	Average	Trend
Return on Market Value (NOPAT / MV)	3.42%	3.54%	3.14%	3.39%	3.26%	2.75%	2.95%	3.21%	3.13%	2.85%
Return on Enterprise Value (NOPAT / EV)	3.47%	3.54%	3.12%	3.39%	3.27%	2.82%	3.03%	3.23%	3.16%	2.93%
Return on Capital (NOPAT / Average Capital)	13.50%	13.75%	15.68%	17.88%	18.05%	15.49%	13.70%	16.17%	17.14%	14.59%
Cost of Capital (WACC)	4.93%	4.20%	4.92%	5.50%	4.78%	3.33%	3.33%	4.54%	4.54%	3.33%
Economic Return Spread	8.57%	9.55%	10.76%	12.38%	13.28%	12.16%	13.05%	11.62%	12.60%	12.60%
Capital Charge	\$911.8	\$777.6	\$844.1	\$989.9	\$1,015.8	\$890.6	\$956.2	\$933.6	\$965.4	\$923.4
Economic Profit (EP)	\$1,583.0	\$1,769.9	\$1,846.5	\$2,227.1	\$2,822.7	\$3,252.7	\$3,492.2	\$2,383.8	\$2,767.5	\$3,372.4
Economic Profit Improvement (EPI)	\$287.1	\$186.9	\$76.6	\$380.7	\$595.6	\$429.9	\$239.5	\$333.9	\$468.7	\$334.7
EP Growth	22.15%	11.81%	4.33%	20.62%	26.74%	15.23%	7.36%	15.74%	20.86%	11.30%
Economic Profit Margin on Sales	1.37%	1.50%	1.50%	1.60%	1.89%	2.02%	2.02%	1.70%	1.84%	2.02%
Economic Profit Per Share	\$3.61	\$4.03	\$4.21	\$5.08	\$6.44	\$7.40	\$7.94	\$5.43	\$6.30	\$7.67
GAAP Earnings Per Share	\$5.25	\$5.33	\$5.79	\$6.87	\$8.21	\$8.41	\$8.98	\$6.92	\$7.83	\$8.69
Excess Cash Per Share	\$2.29	\$0.28	(\$1.00)	\$0.16	\$1.56	\$8.43	\$9.05	\$1.89	\$3.38	\$8.74
<b>Performance Drivers</b>										
Sales Growth	5.78%	1.72%	4.53%	13.12%	7.28%	7.53%	7.26%	6.84%	9.31%	7.39%
Sales Growth Trend (ROC Sales Growth)	5.27%	3.35%	3.41%	9.69%	9.62%	7.43%	7.36%	6.70%	8.91%	7.40%
EBITDAR Margin	4.36%	4.45%	4.52%	4.55%	4.47%	4.58%	4.53%	4.51%	4.53%	4.56%
EBITDAR Growth	12.32%	3.99%	6.07%	13.92%	5.33%	10.28%	6.11%	7.92%	9.85%	8.20%
NOPBT Margin	3.21%	3.22%	3.23%	3.33%	3.32%	3.41%	3.35%	3.30%	3.35%	3.38%
NOPBT Growth	13.92%	2.11%	4.78%	16.50%	7.08%	10.49%	5.40%	8.19%	11.36%	7.95%
NOPAT Margin	2.15%	2.16%	2.18%	2.31%	2.57%	2.58%	2.57%	2.36%	2.48%	2.57%
NOPAT Growth	13.92%	2.11%	5.62%	19.57%	19.32%	7.94%	6.94%	10.91%	15.61%	7.44%
Economic Profit Margin on Sales (EP / Sales)	1.37%	1.50%	1.50%	1.60%	1.89%	2.02%	2.02%	1.70%	1.84%	2.02%
Economic Profit Growth	22.15%	11.81%	4.33%	20.62%	26.74%	15.23%	7.36%	15.74%	20.86%	11.30%
Economic Return Spread (ROC-WACC)	8.57%	9.55%	10.76%	12.38%	13.28%	12.16%	10.37%	11.62%	12.60%	11.26%
Economic Return Ratio (ROC / WACC)	273.61%	327.62%	318.76%	324.99%	377.87%	465.23%	411.63%	362.89%	389.36%	438.43%
Economic Profit Momentum (ΔEP/Capital)	1.55%	1.01%	0.49%	1.88%	2.67%	1.38%	0.72%	1.48%	1.98%	1.05%
Economic Profit Momentum Margin (ΔEP/Sales)	0.25%	0.16%	0.06%	0.27%	0.40%	0.27%	0.14%	0.23%	0.31%	0.20%
Capital Growth	0.51%	0.09%	-14.90%	28.06%	10.48%	39.72%	7.36%	12.69%	26.09%	23.54%
Capital Turns	6.26X	6.36X	7.81X	6.90X	6.70X	5.16X	5.15X	6.59X	6.25X	5.16X
EVC Acceleration Margin	0.26%	0.16%	0.06%	0.31%	0.43%	0.29%	0.15%	0.19%	0.34%	0.22%
EVC Acceleration Spread	1.61%	1.01%	0.41%	2.22%	3.31%	2.02%	0.90%	1.03%	2.30%	1.52%
<b>Risk Factors</b>										
Free Cash Flow (NOPAT - Δ Capital)	\$2,401.6	\$2,531.7	\$5,453.9	(\$1,210.6)	\$1,720.4	(\$4,723.6)	\$2,134.0	\$754.4	(\$1,404.6)	(\$1,294.8)
Free Cash Flow Rate (FCF / Capital)	12.96%	13.66%	34.57%	-5.99%	7.71%	-15.14%	6.37%	6.96%	-4.48%	-4.39%
Free Cash Flow Yield (FCF / MV)	3.30%	3.51%	6.36%	-1.27%	1.46%	-3.14%	1.32%	1.38%	-0.98%	-0.91%
Total Debt / Total Capital	46.80%	41.76%	42.35%	45.19%	41.43%	49.57%	49.57%	44.06%	45.40%	49.57%
Total Debt / EBITDAR	171.67%	147.40%	119.94%	143.88%	138.34%	209.71%	212.18%	151.85%	163.98%	210.94%
Excess Cash	\$1,007.8	\$124.2	(\$439.3)	\$70.8	\$686.2	\$3,730.2	\$0.0	\$834.4	\$1,495.7	\$1,865.1
Financial Leverage ((Total Debt - Excess Cash) / Pension Leverage (Net Pension Liability / MV))	10.52%	10.58%	8.30%	9.53%	7.26%	7.79%	10.27%	8.69%	8.20%	9.03%
Equity Risk Index (S&P 500 = 1.00)	0.63	0.63	0.63	0.63	0.64	0.64	0.64	0.63	0.63	0.64
Stock Price Volatility	1.88	2.29	2.61	2.60	2.79	3.24	3.24	2.71	2.87	3.24
Sales Index (NL Sales)	11.66	11.68	11.72	11.85	11.92	11.99	12.06	11.83	11.92	12.02
Market Value Index (NL Market Value)	11.20	11.18	11.36	11.46	11.68	11.92	11.99	11.52	11.69	11.96
Size Index (NL Sales: MV)	11.43	11.43	11.54	11.65	11.80	11.96	12.03	11.68	11.80	11.99
Beta	0.44	0.44	0.44	0.45	0.46	0.46	0.46	0.45	0.45	0.46
TFP Adjusted Beta	0.63	0.63	0.63	0.63	0.64	0.64	0.64	0.63	0.63	0.64
Stock Price Volatility	1.88	2.29	2.61	2.60	2.79	3.24	3.24	2.71	2.87	3.24
<b>Valuation Measures</b>										
Total Economic Market Value (MV)	\$72,853.5	\$72,034.2	\$85,778.7	\$95,034.6	\$117,907.5	\$150,557.2	\$161,643.7	\$104,262.4	\$121,166.4	\$156,100.4
Economic Enterprise Value	\$71,845.7	\$71,910.0	\$86,218.0	\$94,963.9	\$117,221.3	\$146,827.0	\$157,638.8	\$103,428.0	\$119,670.7	\$152,232.9
Equity Market Value	\$64,183.4	\$64,292.3	\$79,097.2	\$85,903.4	\$108,659.2	\$135,097.0	\$145,045.1	\$94,609.8	\$109,886.5	\$140,071.0
Total Capital	\$20,684.1	\$20,937.9	\$18,290.6	\$22,901.2	\$25,210.4	\$34,435.2	\$36,970.9	\$24,355.0	\$27,515.6	\$35,703.0
Market Value Created MVC (MV - Capital)	\$52,169.4	\$51,096.3	\$67,488.2	\$72,133.4	\$92,697.2	\$116,122.0	\$124,672.8	\$79,907.4	\$93,650.8	\$120,397.4
MVC Margin (MVC / Sales)	45.00%	43.33%	54.74%	51.72%	61.96%	72.18%	72.25%	57.81%	62.44%	72.22%
MVC Spread (MVC / Capital)	252.22%	244.04%	368.98%	314.98%	367.69%	337.22%	337.22%	328.09%	340.36%	337.22%
Current EVC Value (EP / WACC)	\$32,078.4	\$42,181.9	\$37,535.0	\$40,476.7	\$59,085.2	\$97,719.5	\$104,915.2	\$52,452.0	\$61,011.0	\$101,317.3
Current Operations Value COV	\$50,555.9	\$60,713.9	\$54,693.2	\$58,467.1	\$80,348.5	\$124,475.2	\$137,252.7	\$72,791.9	\$83,014.2	\$130,864.0
Current Operations Value Per Share	\$115.24	\$138.16	\$124.70	\$133.35	\$183.23	\$283.06	\$312.68	\$165.83	\$189.14	\$297.86
Future Growth Value (MVC - EVA Value)	\$22,297.6	\$11,320.2	\$31,085.5	\$36,567.6	\$37,559.1	\$26,081.9	\$24,391.0	\$31,470.5	\$38,152.3	\$25,236.4
Future Growth Value Reliance (FGV / MV)	30.61%	15.72%	36.24%	38.48%	31.85%	17.32%	15.09%	30.18%	31.49%	16.17%
Share Price	\$147.10	\$146.44	\$180.20	\$191.56	\$216.47	\$318.31	\$318.31	\$210.60	\$242.11	\$318.31
Dividend Yield	4.39%	1.13%	4.91%	1.08%	1.09%	0.83%	0.83%			
Total Shareholder Return (TTM)	31.10%	0.68%	27.97%	7.38%	14.09%	47.88%	0.00%	-33.84%	14.97%	31.47%
MV to IC Ratio	3.52X	3.44X	4.69X	4.15X	4.68X	4.37X	4.37X	4.28X	4.40X	4.37X
EV / EBITDAR Multiple	14.23X	13.69X	15.48X	14.96X	17.53X	19.92X	20.15X	16.56X	17.60X	20.04X
EV / NOPBT Multiple	19.29X	18.91X	21.64X	20.46X	23.59X	26.74X	27.24X	22.59X	23.77X	26.99X
EV / NOPAT Multiple	28.80X	28.23X	32.04X	29.52X	30.54X	35.44X	35.58X	31.46X	32.06X	35.51X
EV / EP Multiple	45.39X	40.63X	46.69X	42.64X	41.53X	45.14X	45.14X	43.39X	43.24X	45.14X
Future Growth Value (% of MV)	30.61%	15.72%	36.24%	38.48%	31.85%	17.32%	15.09%	30.18%	31.49%	16.17%
Current Operations Value (% of MV)	69.39%	84.28%	63.76%	61.52%	68.15%	82.68%	84.91%	69.82%	68.51%	83.83%
Market Value (COV + FGV %)	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Basic Shares Outstanding	438.7	439.5	438.6	438.4	438.5	439.8	438.9	438.9	438.9	439.4

Source: Company Data, Financial statements and Tigress Research

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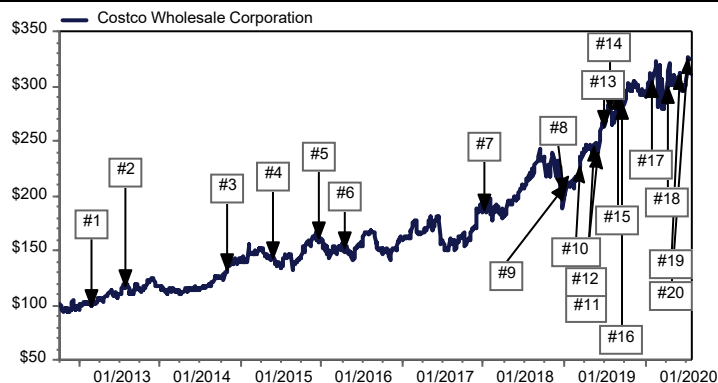
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**Costco Wholesale Corporation (COST-US)**
**Food & Staples Retailing**
**Ratings History**

Costco Wholesale Corporation (COST-US)				
Item #	Date	Research Action	Rating	Price
#20	07/09/2020	Reiterate Rating	Buy	\$316.32
#19	06/04/2020	Reiterate Rating	Buy	\$306.64
#18	04/13/2020	Reiterate Rating	Buy	\$300.01
#17	01/31/2020	Reiterate Rating	Buy	\$305.52
#16	09/20/2019	Reiterate Rating	Buy	\$286.40
#15	08/28/2019	Reiterate Rating	Buy	\$294.49
#14	07/29/2019	Reiterate Rating	Buy	\$280.13
#13	06/28/2019	Reiterate Rating	Buy	\$264.26
#12	05/31/2019	Reiterate Rating	Buy	\$239.58
#11	05/15/2019	Reiterate Rating	Buy	\$244.67
#10	03/08/2019	Reiterate Rating	Buy	\$227.82
#9	01/11/2019	Reiterate Rating	Buy	\$210.51
#8	12/31/2018	Reiterate Rating	Buy	\$203.71
#7	01/05/2018	Reiterate Rating	Buy	\$187.75
#6	04/18/2016	Reiterate Rating	Buy	\$153.30
#5	12/15/2015	Reiterate Rating	Buy	\$161.29
#4	05/28/2015	Reiterate Rating	Buy	\$144.26
#3	10/29/2014	Downgrade	Buy	\$131.93
#2	07/24/2013	Reiterate Rating	Strong Buy	\$117.90
#1	02/27/2013	Initiation of Coverage	Strong Buy	\$100.73


**Tigress Research Investment Rating Meanings and Distribution**

Tigress Research employs a five-tier rating system for evaluating the investment opportunity and potential return associated with owning the common equity of rated firms within our research universe. The potential return is measured on a relative basis to the general market which is represented by the S&P 500 and to the subject company's industry peer group as indicated.

**Rating Distribution (07/23/2020)**

Rating:	Meaning:	Rating Distribution (07/23/2020)			
		Companies Under Coverage		Relationship Companies Under Coverage*	
		#	%	#	%
<b>Strong Buy:</b>	Expect significant price gains in the price of the stock relative to its industry peer group and general market over the next 12 months.	17	14%	2	22%
<b>Buy:</b>	Expect out-performance for the price of the stock relative to its industry peer group and general market over the next 12 months.	56	46%	6	67%
<b>Neutral:</b>	Expect little or no outperformance opportunity over the next 12 months.	44	36%	1	11%
<b>Underperform:</b>	Expect underperformance for the price of the stock relative to its industry peer group and general market over the next 12 months.	5	4%	0	0%
<b>Sell:</b>	Expect price decline or significant relative market and industry underperformance over the next 12 months.	0	0%	0	0%
<b>Not Rated</b>	No Current Research Rating	NA	NA	97	NA

\*Relationship Companies under research coverage are companies in which Tigress Financial Partners LLC or one of its affiliates has received compensation for investment banking or non-investment banking services from the company, affiliated entities and/or its employees within the past twelve months or expects to do so within the next three months.

Total	122	100%	106	100%
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I, Ivan Feinseth, hereby certify that the views expressed herein accurately reflect my personal views about the subject company and their securities and that I have not been and will not be directly or indirectly compensated for expressing specific recommendations or views in the report.

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**Tigress Research Methodology Overview**

We employ proprietary quantitative valuation models combined with dynamic fundamental analysis based on the principles of Economic Profit to formulate timely and insightful investment ratings, analysis, strategies, and recommendations.

We make key adjustments to reported financial data eliminating GAAP-based accounting distortions and measuring all companies on a cash operating basis.

Our proprietary research framework is a multi-factor model that scores and ranks companies based on their risk-adjusted ability to create Economic Profit relative to their current market value focusing on three key components:

**Business Performance:** Measuring economic profitability, growth, and operating efficiency.

**Risk:** Measuring business sustainability, volatility, strength, and consistency.

**Valuation:** Linking business performance to market value. Measuring value created relative to capital employed and enterprise multiples of economic profit and cash flow.

We score and rank 24 key measurements of performance, risk, and value into relative market and industry investment recommendations.

**Glossary of Key Terms and Measures**

<b>Excess Cash per Share:</b>	Excess Cash per Share is the amount of excess cash divided by basic shares outstanding. Excess Cash consists of all cash and short-term securities less operating cash needed to run the business. Operating Cash is 5% of TTM net sales revenue.
<b>EBITDAR:</b>	Earnings Before Interest, Taxes, Depreciation, Amortization, and Restructuring, and Rent Costs. This is especially important when comparing companies that use a significant amount of leased assets like restaurants and retailers.
<b>NOPAT:</b>	Net Operating Profit After Tax represents a company's after-tax cash operating profit, excluding financing costs.
<b>Total Invested Capital:</b>	Total Invested Capital the total cash investment that shareholders and debt holders have made during the life of the company.
<b>Return on Capital:</b>	Return on Capital equals NOPAT divided by Total Invested Capital. It is a key measure of operating efficiency. ROC quantifies how well a company generates cash flow relative to the capital invested in its business.
<b>Cost of Capital:</b>	Is the proportionately weighted cost of each category of capital – common equity, preferred equity, and debt.
<b>Economic Profit:</b>	Economic Profit is the net operating income after tax less the opportunity cost of the total capital invested. It is the most important driver of shareholder value.
<b>Current Operations Value:</b>	Current Operations Value is the portion of market value based on the discounted present value of the current earnings stream, assuming it remains constant forever.
<b>Future Growth Value:</b>	Future Growth Value is the portion of market value based on un-earned Economic Profit

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<b>Company:</b>	<b>Disclosure:</b>
Costco Wholesale Corporation (COST-US)	14

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