Costco Wholesale Corporation (COST)

Updated March 12th, 2025, by Josh Arnold

Key Metrics

Current Price:	$930	**5 Year CAGR Estimate:**	6.1%	**Market Cap:**	$415 B
Fair Value Price:	$724	**5 Year Growth Estimate:**	11.0%	**Ex-Dividend Date:**	05/04/25[1]
% Fair Value:	128%	**5 Year Valuation Multiple Estimate:**	-4.9%	**Dividend Payment Date:**	05/19/25
Dividend Yield:	0.5%	**5 Year Price Target**	$1,220	**Years Of Dividend Growth:**	21
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Costco's humble beginning in a converted airplane hangar has given way to a powerhouse in an industry it helped create. Today, Costco is a diversified warehouse retailer that operates about 900 warehouses that collectively generate about $270+ billion in annual sales. Costco's leadership in this industry has rewarded shareholders handsomely over the years as it sports a $415 billion market capitalization.

Costco posted second quarter earnings on March 6th, 2025, and results were uncharacteristically weak. The company beat revenue estimates by $640 million at $63.72 billion, the latter of which was up 9% year-over-year. However, earnings missed estimates by nine cents at $4.02 per share.

Comparable sales were up 6.8% during the quarter, with the US leading the way at +8.3%. Canada was +4.6%, while international markets were +1.7%. After removing gasoline sales and forex translation, comparable sales were up 8.6% in the US.

Membership fee income was $1.19 billion, falling short of the $1.22 billion estimate. It was, however, higher from $1.11 billion a year ago. The membership increase the company instituted last year wasn't effective until September 1st, meaning the next few quarters will see higher membership income.

We have very slightly raised our earnings estimate for this year to $18.10 after Q2 results. We note the impact of tariffs is as yet unknown for Costco, but it's a wildcard along with declining consumer sentiment.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$5.27	$5.33	$5.82	$7.09	$8.26	$9.02	$10.97	$13.14	$14.16	$16.12	***$18.10***	***$30.50***
DPS	$1.51	$1.70	$1.90	$2.14	$2.44	$2.70	$2.98	$3.38	$3.84	$4.38	***$4.64***	***$7.47***
Shares[2]	438	438	437	442	443	444	444	444	443	443	***443***	***443***

We see Costco's forecasted growth as straightforward; sales growth will continue to make up most of its predicted earnings growth. Its model does not allow for much in the way of expanding profit margins because its retail pricing is intended to be as low as possible for consumers. We are forecasting 11% earnings-per-share growth annually in the coming years as strong sales numbers help drive incremental gains in operating margins.

The vast majority of Costco's operating margin dollars come from its membership fees, which continue to grow at strong rates, but are a very small fraction of total revenue. This is 100% margin revenue and fuels higher comparable sales, as well as more members and more people in the stores buying. The company does not buy back stock in any sort of meaningful quantity, so that is not a source of earnings growth. Steadily higher comparable sales should be enough to keep earnings growing at our forecast rate of 11% annually. Given Costco's outstanding track record of growing sales, we aren't ready to cut our growth estimate meaningfully as the company continues to thrive. Comparable sales gains were strong again in Q2 results. Given Costco's profits are due almost entirely to membership revenue, that is the key thing to watch. Costco finally raised its membership fee, effective September 1st, 2024. Fees rose anywhere from $5 to

[1] Estimated date
[2] Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

$10 per year depending upon membership type, which should drive increased revenue and margins in the years to come.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	26.7	29.0	27.6	28.1	27.8	33.9	34.2	40.4	34.7	55.4	***51.4***	***40.0***
Avg. Yld.	1.1%	1.1%	1.2%	1.1%	1.0%	0.9%	0.8%	0.6%	0.7%	0.5%	***0.5%***	***0.6%***

Costco's price-to-earnings multiple has been elevated for some time as investors have applied a premium to the stock due to the company's excellent performance. Costco shares are extremely expensive still, trading for an eye-watering 51.4 times earnings. That's a long way ahead of our estimate of our raised fair value at 40 times earnings, so we continue to see a huge headwind to returns from the valuation.

We see the yield as remaining under 1% given the valuation and rising dividend payment. We don't believe Costco will be a high-income stock anytime in the foreseeable future, but its payout growth should be robust. We note the $10 per share special dividend paid in December of 2020, as well as the $15 special dividend declared for January 2024.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	28%	32%	33%	30%	30%	30%	27%	26%	27%	27%	***26%***	***25%***

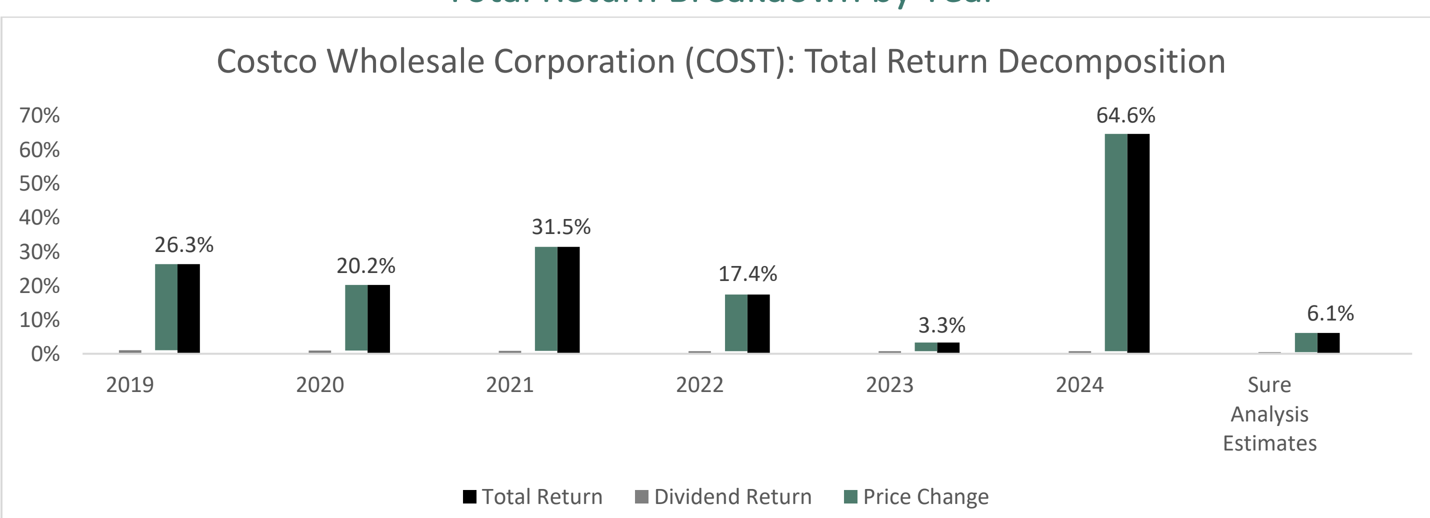
Costco's payout ratio is quite low at 26% for this year, and we believe it will remain near or under 30% going forward. The company has the ability to boost the dividend at a much higher rate but has thus far chosen not to. Regardless, Costco's dividend is ultra-safe, but of course, the yield is unattractive given the enormous valuation.

Costco's competitive advantage is in its leadership position in a category it created and as Sam's Club closes stores, that position should strengthen. It is not immune from a recession, but damage during the Great Recession was slight. Costco thrived during the worst of the pandemic recession and exited the recession in a stronger competitive position.

Final Thoughts & Recommendation

Costco is a decent growth stock that is trading well ahead of our estimate of fair value. We forecast 6.1% total annual returns over the next five years, as the company's impressive growth rate of 11% drives returns, with the 0.5% yield and offsetting 4.9% valuation headwind. Shares offer modest prospective returns, but we're reiterating the stock at a hold rating after Q2 earnings.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue ($B)	116	119	129	142	153	167	196	227	242	254
Gross Profit	15134	15818	17143	18424	19817	21,822	25,245	27,572	29,704	32,095
Gross Margin	13.0%	13.3%	13.3%	13.0%	13.0%	13.1%	12.9%	12.1%	12.3%	12.6%
SG&A Exp.	11445	12068	12950	13876	14994	16,332	18,461	19,779	21,590	22,810
D&A Exp.	1127	1255	1370	1437	1492	1,645	1,781	1,900	2,077	2,237
Operating Profit	3624	3672	4111	4480	4737	5,435	6,708	7,793	8,114	9,285
Op. Margin	3.1%	3.1%	3.2%	3.2%	3.1%	3.3%	3.4%	3.4%	3.3%	3.6%
Net Profit	2377	2350	2679	3134	3659	4,002	5,007	5,844	6,292	7,367
Net Margin	2.0%	2.0%	2.1%	2.2%	2.4%	2.4%	2.6%	2.6%	2.6%	2.9%
Free Cash Flow	1892	643	4224	2805	3358	6,051	5,370	3,501	6,745	6,629
Income Tax	1195	1243	1325	1263	1061	1,308	1,601	1,925	2,195	2,373

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	33017	33163	36347	40830	45400	55,556	59,268	64,166	68,994	69,831
Cash & Equivalents	4801	3379	4546	6055	8384	12,277	11,258	10,203	13,700	9,906
Inventories	8908	8969	9834	11040	11395	12,242	14,215	17,907	16,651	2,721
Total Liabilities	22174	20831	25268	27727	29816	36,851	41,190	43,519	43,936	46,209
Accounts Payable	9011	7612	9608	11237	11679	14,172	16,278	17,848	17,483	19,421
Long-Term Debt	6135	5161	6573	6487	6823	7,609	7,491	6,557	6,458	5,897
Total Equity	10617	12079	10778	12799	15243	18,284	17,564	20,642	25,058	23,622
D/E Ratio	0.58	0.43	0.61	0.51	0.45	0.42	0.43	0.32	0.26	0.25

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	7.2%	7.1%	7.7%	8.1%	8.5%	7.9%	8.7%	9.5%	9.5%	10.6%
Return on Equity	20.7%	20.7%	23.4%	26.6%	26.1%	23.9%	27.9%	30.6%	27.5%	30.3%
ROIC	13.7%	13.6%	15.2%	16.8%	17.4%	16.4%	19.3%	22.1%	21.4%	24.1%
Shares Out.	438	438	437	442	443	444	444	445	444	445
Revenue/Share	262.47	269.04	292.62	320.43	344.76	375.67	440.94	510.29	545.14	572.11
FCF/Share	4.27	1.46	9.58	6.35	7.58	13.63	12.09	7.87	15.18	14.90

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.