



# Costco Wholesale Corporation (COST)

Updated October 5<sup>th</sup>, 2025, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$915	<b>5 Year CAGR Estimate:</b>	7.8%	<b>Market Cap:</b>	\$406 B
<b>Fair Value Price:</b>	\$804	<b>5 Year Growth Estimate:</b>	10.0%	<b>Ex-Dividend Date:</b>	11/02/25 <sup>1</sup>
<b>% Fair Value:</b>	114%	<b>5 Year Valuation Multiple Estimate:</b>	-2.6%	<b>Dividend Payment Date:</b>	11/16/25
<b>Dividend Yield:</b>	0.6%	<b>5 Year Price Target</b>	\$1,295	<b>Years Of Dividend Growth:</b>	22
<b>Dividend Risk Score:</b>	A	<b>Sector:</b>	Consumer Staples	<b>Rating:</b>	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 over 900 warehouses that collectively generate almost \$300 billion in annual sales. Costco's leadership in this industry has rewarded shareholders handsomely over the years as it sports a \$406 billion market capitalization.

Costco posted fourth quarter and full-year earnings on September 25<sup>th</sup>, 2025, and results were better than expected on both the top and bottom lines. Earnings-per-share were \$5.87, which was six cents ahead of expectations. Revenue was up 8.1% year-over-year to \$86.16 billion, beating estimates by \$100 million. Revenue from membership fees was up 14% year-over-year and beat estimates by 2%. Executive members reached 38.7 million, or 47.7% of paid members. Those members represent 74.2% of total sales.

Comparable sales excluding gas sales in the US were up 6%, down from 7.9% in Q3 and slightly missing estimates. E-commerce sales were up 13.5%, decelerating from 15.7% previously.

Gross margin was 11.13% of revenue, with core margins improving by 29 basis points. Fresh foods, sundries, and nonfoods were all higher year-over-year. Supply chain improvements and more Kirkland Signature sales contributed to margin gains. SG&A was 9.21% of revenue with wage investments partially offsetting productivity gains. Capex was \$1.97 billion in the fourth quarter.

We start fiscal 2026 with an estimate of \$20.10 in earnings-per-share on the back of another strong year.

## Growth on a Per-Share Basis

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031
<b>EPS</b>	\$5.33	\$5.82	\$7.09	\$8.26	\$9.02	\$10.97	\$13.14	\$14.16	\$16.12	\$18.21	<b>\$20.10</b>	<b>\$32.37</b>
<b>DPS</b>	\$1.70	\$1.90	\$2.14	\$2.44	\$2.70	\$2.98	\$3.38	\$3.84	\$4.38	\$4.92	<b>\$5.20</b>	<b>\$8.76</b>
<b>Shares<sup>2</sup></b>	438	437	442	443	444	444	444	443	443	443	<b>443</b>	<b>443</b>

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 10% 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 10% annually. Comparable sales gains were okay in Q4, but certainly weakened. 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 1<sup>st</sup>, 2024. Fees rose anywhere from \$5 to \$10 per year depending

<sup>1</sup> Estimated date

<sup>2</sup> Share count in millions

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upon membership type, which should drive increased revenue and margins in the years to come. Given the company's history on this topic, it is likely to be years before another increase is announced.

## Valuation Analysis

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Now	2031
Avg. P/E	29	27.6	28.1	27.8	33.9	34.2	40.4	34.7	55.4	51.8	45.5	40.0
Avg. Yld.	1.1%	1.2%	1.1%	1.0%	0.9%	0.8%	0.6%	0.7%	0.5%	0.5%	0.6%	0.7%

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 a staggering 45.5 times earnings. That's ahead of our estimate of our fair value at 40 times earnings, so we continue to see a meaningful headwind to returns from the valuation. The boost in earnings estimates, as well as a weak share price, have the valuation much lower than our last several updates.

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	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031
Payout	32%	33%	30%	30%	30%	27%	26%	27%	27%	27%	26%	27%

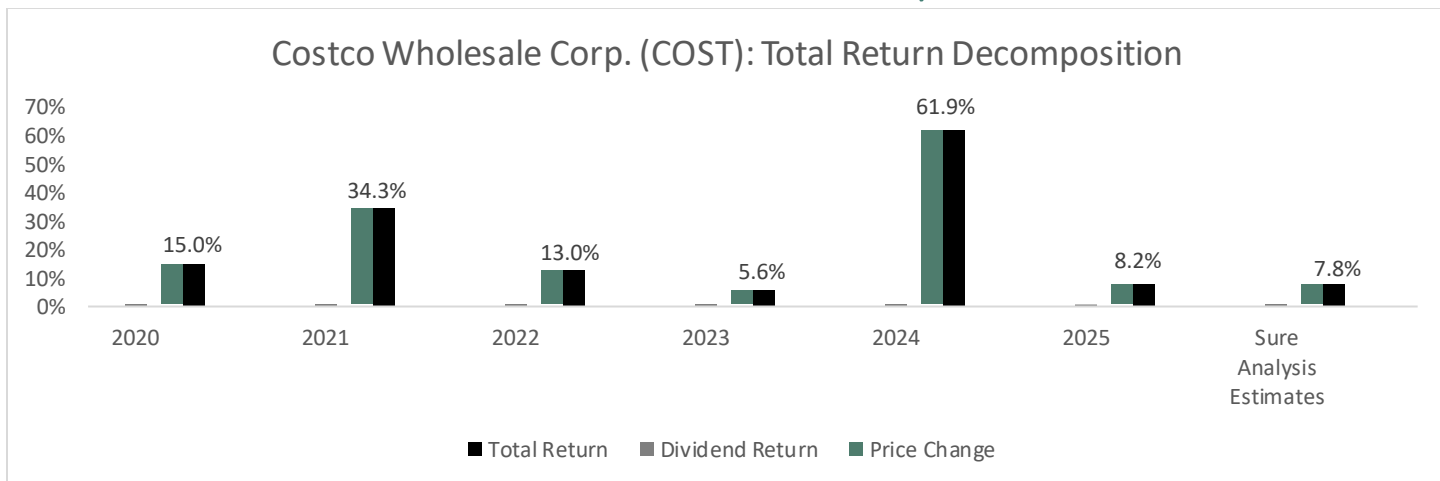
Costco's payout ratio is quite low at 26% for this year, and we believe it will remain near or under 30% going forward. The company has the ability to boost the dividend at a much higher rate but has thus far chosen not to. Regardless, Costco's dividend is ultra-safe, but of course, the yield is unattractive 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 7.8% total annual returns over the next five years, as the company's impressive growth rate of 10% drives returns, with the 0.6% yield and offsetting 2.6% valuation headwind. Total returns have improved significantly since our last update, but we maintain our hold rating after fiscal 2025 results.

## 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.

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