

Costco Wholesale Corporation (COST)



Equity Research Report

Recommendation: HOLD

Current Price: \$902.66

12-Month Price Target: \$929.75

Expected Upside: 3.0%

Porter Pritchard

September 9, 2026

Executive Summary

Costco Wholesale Corporation continues to demonstrate strong financial performance supported by steady revenue growth, expanding membership, high renewal rates, increasing warehouse count, and improving profitability. The company generated \$275.2 billion in FY2025 revenue, representing growth of 8.2% from FY2024. Net income increased 9.9% to \$8.1 billion, while operating income rose to \$10.4 billion. Costco's operating margin also improved from 3.35% in FY2023 to 3.77% in FY2025, showing gradual improvement in profitability as the business expanded (Costco Wholesale Corporation, "Annual Report").

Recommendation	HOLD
Current Price	\$902.66
12-Month Target	\$929.75
Upside	3.0%
FY2025 Revenue	\$275.2B
FY2025 EPS	\$18.21
FY2025 Operating Margin	3.77%
P/E	49.6x

Recent FY2026 year-to-date results suggest this momentum has continued. Revenue reached \$207.4 billion, up 9.7% from the comparable prior-year period, while net income increased 13.5% to \$6.2 billion. Earnings per share also rose to \$14.01 from \$12.34 during the comparable period. Costco generated \$11.1 billion in operating cash flow and \$6.9 billion in free cash flow during the period, supporting the company's ability to fund continued business expansion (Costco Wholesale Corporation, "Quarterly Report").

Membership remains a major driver of Costco's business model. Paid memberships increased from 71.0 million in FY2023 to 81.0 million in FY2025, while Executive memberships increased from 32.3 million to 38.7 million. The company also maintained a worldwide renewal rate near 90%, showing strong customer retention and recurring membership revenue.

Warehouse expansion provides another source of growth, with Costco increasing its warehouse count from 861 in FY2023 to 914 in FY2025 and 928 during FY2026. Comparable sales and digital sales have also continued to grow, showing Costco is generating growth from both existing operations and new expansion (Costco Wholesale Corporation, "Annual Report"; Costco Wholesale Corporation, "Quarterly Report"; Costco Wholesale Corporation, "Third Quarter and Year-To-Date Operating Results").

Costco also compares favorably with major competitors in several areas. While Walmart operates on a much larger revenue base, Costco produced stronger recent annual revenue growth. Costco also benefits from a membership-based model that creates recurring fee revenue and supports customer loyalty. BJ's Wholesale operates a similar membership model but remains significantly smaller in revenue and geographic scale (Costco Wholesale Corporation, "Annual Report"; Walmart Inc.; BJ's Wholesale Club Holdings, Inc.).

Despite Costco's strong operating performance, valuation represents the primary concern for investors. At a share price of \$902.66 and FY2025 earnings per share of \$18.21, Costco trades at roughly 49.6 times FY2025 earnings (Costco Wholesale Corporation, "Annual Report"; Costco Wholesale Corporation, "Stock Info"). Using estimated FY2026 earnings per share of approximately \$20.66, my valuation analysis produces a bear-case price target of \$826.44, a base-case price target of \$929.75, and a bull-case price target of \$1,033.05 (Costco Wholesale Corporation, "Quarterly Report").

Based on this analysis, I rate Costco a HOLD with a 12-month price target of \$929.75. The company's financial performance, membership growth, warehouse expansion, comparable sales growth, and digital growth support a strong long-term business outlook. At the same time, the current valuation appears to reflect much of this strength already. My base-case price target represents approximately 3% upside from the current share price, which limits the margin of safety for a new investment at current levels.

Company Overview

Costco Wholesale Corporation is a membership-based warehouse retailer headquartered in Issaquah, Washington. The company operates through a model centered on selling merchandise at warehouse locations while collecting recurring membership fees from its customer base. Costco trades under the ticker symbol COST (Costco Wholesale Corporation, "Corporate Overview"; Costco Wholesale Corporation, "Quarterly Report").

Costco's revenue primarily comes from merchandise sales and membership fees. The membership structure plays a major role in the company's business model because it creates recurring revenue while encouraging repeat customer activity. Costco had 81.0 million paid members and 38.7 million Executive members in FY2025. Worldwide membership renewal remained near 90%, reflecting strong customer retention (Costco Wholesale Corporation, "Annual Report").

The company has continued expanding its physical footprint. Costco operated 861 warehouses in FY2023, 890 in FY2024, and 914 in FY2025. During FY2026, the company's warehouse count increased to 928. This expansion provides additional opportunities for

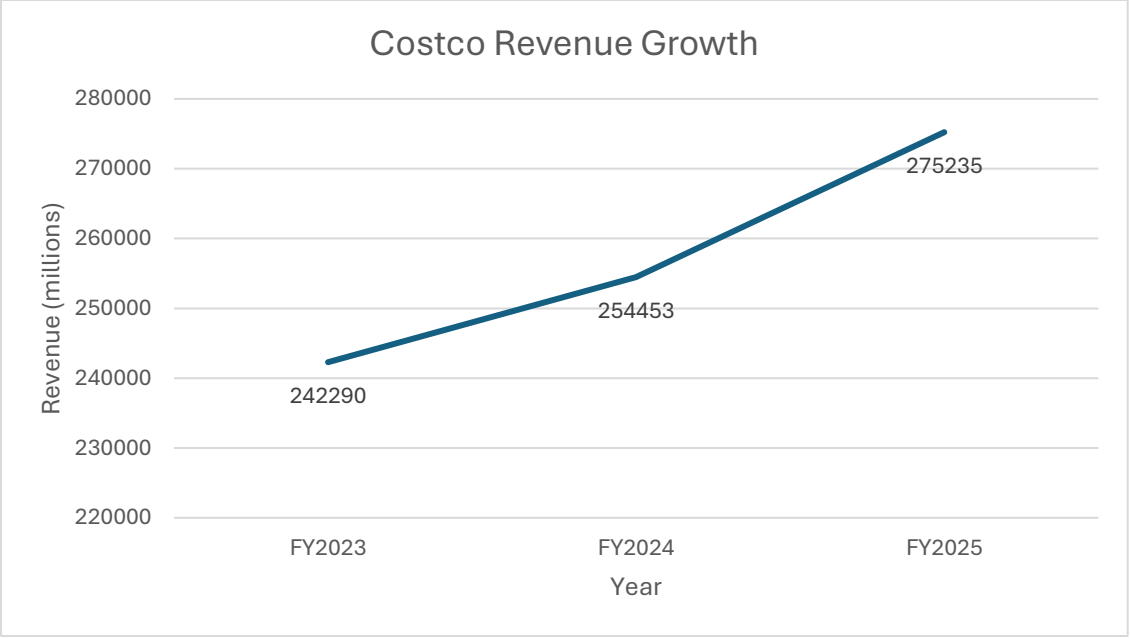
membership growth and merchandise sales (Costco Wholesale Corporation, “Annual Report”; Costco Wholesale Corporation, “Quarterly Report”).

Costco also continues to generate growth from existing operations. Comparable sales increased 6% in FY2025 and 7.9% during FY2026 year-to-date. Digital sales have grown faster, increasing 16% in FY2025 and 21.6% during FY2026 year-to-date. These results show Costco’s growth comes from multiple areas, including new warehouses, membership expansion, existing-store performance, and digital sales (Costco Wholesale Corporation, “Annual Report”; Costco Wholesale Corporation, “Third Quarter and Year-To-Date Operating Results”).

Financial Performance

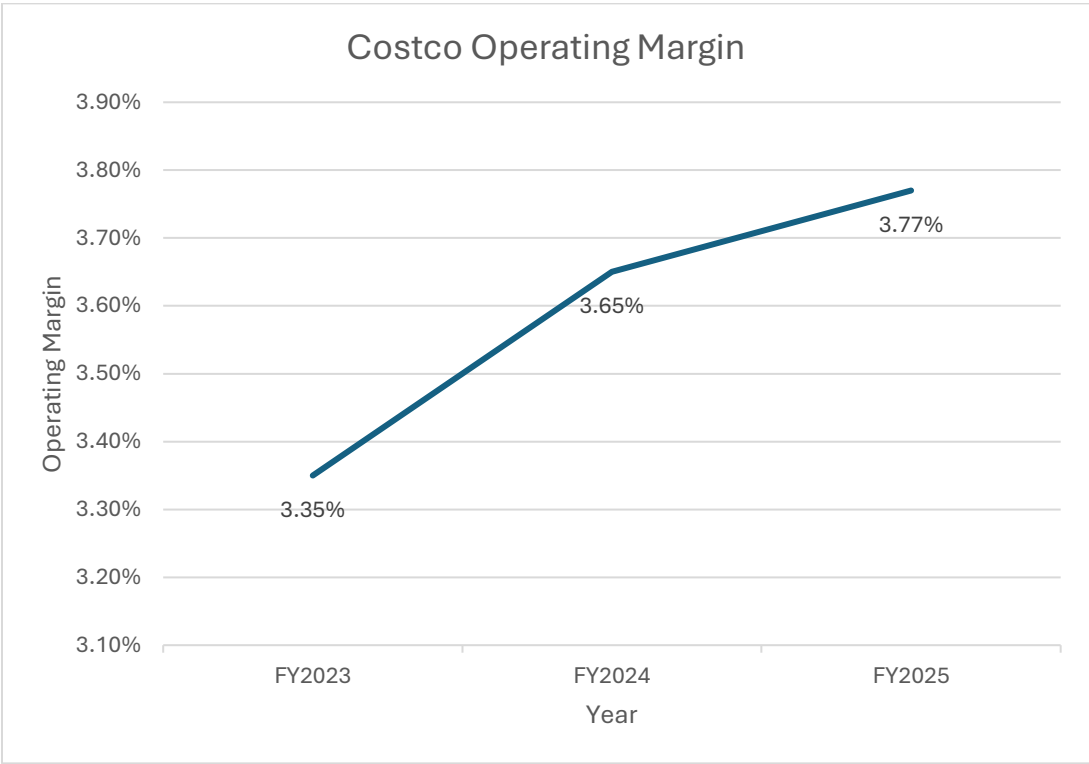
Costco has produced consistent financial growth over the past three fiscal years. Revenue increased from \$242.3 billion in FY2023 to \$254.5 billion in FY2024 and \$275.2 billion in FY2025. Revenue growth accelerated from 5.0% in FY2024 to 8.2% in FY2025 (Costco Wholesale Corporation, “Annual Report”).

Profitability also improved over the same period. Net income increased from \$6.3 billion in FY2023 to \$7.4 billion in FY2024 and \$8.1 billion in FY2025. Operating income rose from \$8.1 billion to \$10.4 billion during the same period. Costco’s operating margin improved from 3.35% in FY2023 to 3.65% in FY2024 and 3.77% in FY2025 (Costco Wholesale Corporation, “Annual Report”).



Costco Revenue Growth, FY2023 to FY2025

Source: Costco Wholesale Corporation, FY2025 Annual Report.



Costco Operating Margin, FY2023 to FY2025

Source: Costco Wholesale Corporation, FY2025 Annual Report.

Earnings per share increased from \$14.16 in FY2023 to \$16.56 in FY2024 and \$18.21 in FY2025. This trend shows earnings have continued to increase alongside revenue growth (Costco Wholesale Corporation, “Annual Report”).

Cash generation has also remained strong. Costco generated \$13.3 billion in operating cash flow during FY2025, compared with \$11.1 billion in FY2023. After \$5.5 billion of capital expenditures, FY2025 free cash flow totaled approximately \$7.8 billion (Costco Wholesale Corporation, “Annual Report”).

FY2026 year-to-date performance shows continued growth. Revenue increased 9.7% to \$207.4 billion compared with the prior-year period. Net income increased 13.5% to \$6.2 billion, while operating income reached \$7.9 billion. Operating margin improved slightly from 3.72% in the comparable FY2025 period to 3.80% in FY2026 year-to-date (Costco Wholesale Corporation, “Quarterly Report”).

Growth Drivers

Costco’s growth profile is supported by several measurable drivers, including membership expansion, warehouse growth, comparable sales performance, and digital sales growth. Together, these factors show the company is expanding through both new capacity and stronger performance within its existing operations (Costco Wholesale Corporation, “Annual Report”; Costco Wholesale Corporation, “Quarterly Report”; Costco Wholesale Corporation, “Third Quarter and Year-To-Date Operating Results”).

Membership growth remains one of Costco's most important growth drivers. Paid memberships increased from 71.0 million in FY2023 to 76.2 million in FY2024 and 81.0 million in FY2025. Executive memberships also increased from 32.3 million in FY2023 to 38.7 million in FY2025. During FY2026 year-to-date, paid memberships reached 82.9 million and Executive memberships reached 41.2 million. This trend supports recurring membership fee revenue while also expanding the customer base generating merchandise sales (Costco Wholesale Corporation, "Annual Report"; Costco Wholesale Corporation, "Quarterly Report"; Costco Wholesale Corporation, "Events & Presentations").

Warehouse expansion provides Costco with another source of long-term growth. The company increased its warehouse count from 861 locations in FY2023 to 890 in FY2024 and 914 in FY2025. During FY2026, the total increased to 928 warehouses. Each additional location creates opportunities to attract new members and generate additional merchandise sales (Costco Wholesale Corporation, "Annual Report"; Costco Wholesale Corporation, "Quarterly Report").

Comparable sales growth also supports Costco's performance. Comparable sales increased 3% in FY2023, 5% in FY2024, and 6% in FY2025. During FY2026 year-to-date, comparable sales growth reached 7.9%. This is important because comparable sales measure growth from existing operations rather than growth created only by opening new warehouses (Costco Wholesale Corporation, "Annual Report"; Costco Wholesale Corporation, "Third Quarter and Year-To-Date Operating Results").

Digital sales represent another area of strong growth. Digital sales growth increased from negative 6% in FY2023 to 16% in FY2024 and 16% again in FY2025. During FY2026 year-to-date, digital sales increased 21.6%. This performance shows Costco is expanding its ability to generate sales beyond traditional in-warehouse purchases (Costco Wholesale Corporation,

“Annual Report”; Costco Wholesale Corporation, “Third Quarter and Year-To-Date Operating Results”).

Overall, Costco’s growth is supported by multiple sources rather than a single factor. Membership expansion, new warehouse openings, stronger comparable sales, and rapid digital sales growth provide several paths for continued revenue and earnings growth.



Costco Membership Growth

Sources: Costco Wholesale Corporation, FY2025 Annual Report, FY2026 Q3 Form 10-Q, and FY2026 Q3 presentation.

Competitive Analysis

Costco competes with several major retailers, including Walmart and BJ’s Wholesale. Each company operates at a different scale and uses a different business structure, making the

comparison useful for understanding Costco's competitive position (Costco Wholesale Corporation, "Annual Report"; Walmart Inc.; BJ's Wholesale Club Holdings, Inc.).

Costco generated \$275.2 billion in its latest fiscal year, compared with \$713.2 billion for Walmart and \$21.5 billion for BJ's Wholesale. Walmart operates at a significantly larger scale, while BJ's remains much smaller than Costco. Costco's latest annual revenue growth of 8.2% exceeded the 4.7% growth reported by both Walmart and BJ's in the periods researched (Costco Wholesale Corporation, "Annual Report"; Walmart Inc.; BJ's Wholesale Club Holdings, Inc.).

Costco generated \$10.4 billion in operating income with a 3.77% operating margin. Walmart generated \$29.8 billion in operating income with a 4.18% operating margin, while BJ's generated approximately \$817 million with a 3.81% operating margin. These figures show Costco operates with margins similar to BJ's but below Walmart's reported operating margin (Costco Wholesale Corporation, "Annual Report"; Walmart Inc.; BJ's Wholesale Club Holdings, Inc.).

Costco's membership-based structure provides a competitive advantage through recurring membership fee revenue and strong customer retention. Its scale also provides significant purchasing power and broad geographic reach. BJ's operates with a similar membership model, but its smaller size and geographic presence limit its scale compared with Costco (Costco Wholesale Corporation, "Annual Report"; BJ's Wholesale Club Holdings, Inc.).

Walmart represents a different competitive threat. Its scale, broad product selection, and strong retail presence make it a major competitor, although its business model is less dependent on recurring membership revenue (Walmart Inc.).

Based on the researched data, Costco holds a strong competitive position through its combination of scale, membership loyalty, recurring fee revenue, and consistent growth. Its primary competitive challenge comes from maintaining this performance while competing against retailers with significant scale and established customer bases.

Valuation

Costco's valuation is the main factor limiting upside in this research. While the company continues to produce strong revenue and earnings growth, the stock already trades at a high earnings multiple.

At a current share price of \$902.66 and FY2025 earnings per share of \$18.21, Costco trades at approximately 49.6 times FY2025 earnings. This valuation indicates investors are already pricing in continued growth, strong membership performance, and consistent execution (Costco Wholesale Corporation, "Annual Report"; Costco Wholesale Corporation, "Stock Info").

For FY2026, estimated earnings per share are approximately \$20.66 based on the current year-to-date EPS growth rate of 13.46%. I applied different price-to-earnings multiples to this estimate to create bear, base, and bull valuation scenarios (Costco Wholesale Corporation, "Quarterly Report").

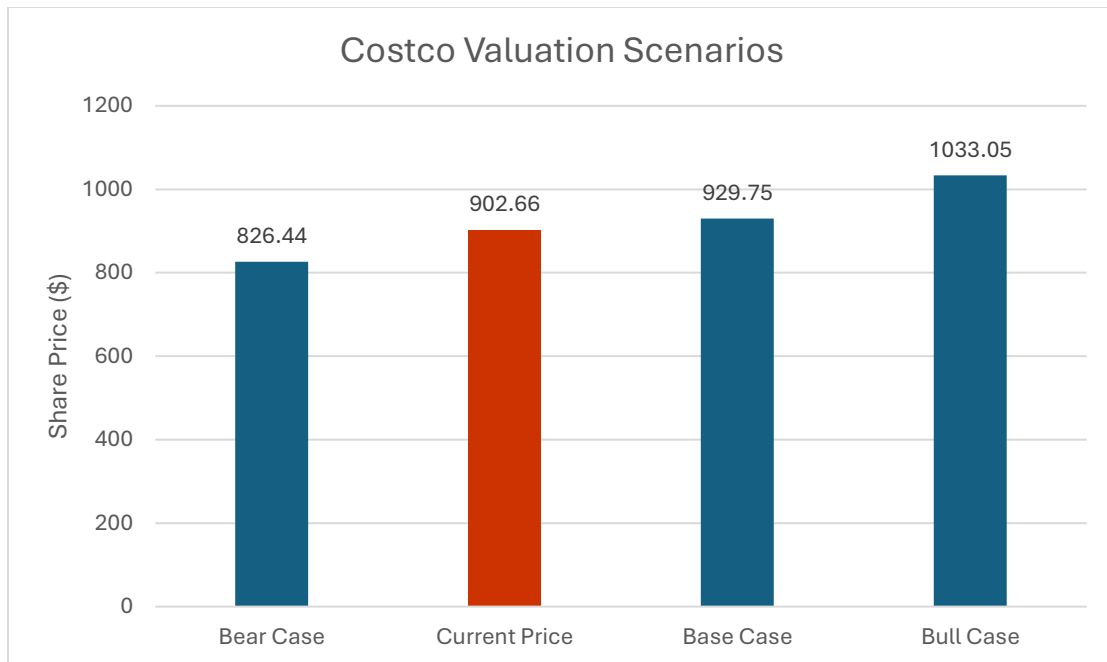
The bear case applies a 40x P/E multiple, producing a price target of \$826.44. This scenario represents slower growth or lower investor willingness to pay a premium valuation for Costco.

The base case applies a 45x P/E multiple, producing a price target of \$929.75. This scenario assumes Costco continues its current growth trajectory while maintaining a premium valuation.

The bull case applies a 50x P/E multiple, producing a price target of \$1,033.05. This scenario assumes strong membership, revenue, and earnings growth continue while investors remain willing to assign Costco a high valuation multiple.

Compared with the current share price of \$902.66, the base-case target represents approximately 3.0% upside. The bear case represents approximately 8.4% downside, while the bull case represents approximately 14.4% upside.

Based on this valuation, Costco appears fairly valued near its current market price. The company's operating performance remains strong, but the limited upside in the base case does not support a BUY recommendation at current levels.



Costco Valuation Scenarios

Source: Author calculations using Costco FY2025 Annual Report, FY2026 Q3 Form 10-Q, and Costco Stock Info.

Risks

Costco's strongest investment risk is valuation. The company trades at a high earnings multiple, which means investors already expect strong future growth and consistent execution. If revenue growth, earnings growth, or membership performance falls below expectations, the stock price could decline even if Costco remains profitable and financially strong (Costco Wholesale Corporation, "Annual Report").

Membership dependence also creates risk. Costco's business model relies heavily on maintaining a large and loyal membership base. Membership fees provide recurring revenue, while high renewal rates support the stability of the model. A decline in membership growth or

renewal rates would weaken one of Costco's most important competitive advantages (Costco Wholesale Corporation, "Annual Report"; Costco Wholesale Corporation, "Quarterly Report").

Competition remains another factor to consider. Costco competes with Walmart, Sam's Club, BJ's Wholesale, Amazon, and other large retailers. These competitors have significant scale, broad product offerings, and established customer bases. Increased competition could pressure Costco's sales growth or make it harder to maintain its current market position (Costco Wholesale Corporation, "Annual Report").

Consumer spending conditions also affect Costco's performance. Changes in inflation, economic conditions, or household spending patterns could reduce discretionary purchases and slow comparable sales growth. Costco's strong membership model provides some stability, but weaker consumer demand could still affect revenue growth (Costco Wholesale Corporation, "Annual Report").

International expansion creates both opportunity and execution risk. New markets give Costco additional room to increase warehouses, membership, and sales, but international growth also introduces currency, regulatory, and consumer preference risks. Success depends on Costco's ability to adapt its business model to different markets (Costco Wholesale Corporation, "Annual Report").

Overall, Costco's financial position and operating performance appear strong, but the company's high valuation leaves limited room for execution mistakes. The largest risk is not the quality of the business itself. The largest risk is paying too high a price for future growth that investors already expect.

Investment Conclusion

Based on my financial, growth, competitive, and valuation analysis, I rate Costco Wholesale Corporation a HOLD with a 12-month price target of \$929.75.

Costco continues to demonstrate strong operating performance. Revenue increased to \$275.2 billion in FY2025, while net income reached \$8.1 billion and operating margin improved to 3.77%. FY2026 year-to-date results also show continued momentum, with revenue growth of 9.7% and net income growth of 13.5% (Costco Wholesale Corporation, “Annual Report”; Costco Wholesale Corporation, “Quarterly Report”).

The company’s long-term strengths include membership growth, high renewal rates, warehouse expansion, comparable sales growth, and increasing digital sales. These factors support Costco’s ability to continue growing revenue and earnings over time (Costco Wholesale Corporation, “Annual Report”; Costco Wholesale Corporation, “Quarterly Report”; Costco Wholesale Corporation, “Third Quarter and Year-To-Date Operating Results”).

The main issue is valuation. At a current share price of \$902.66, Costco trades at approximately 49.6 times FY2025 earnings. My base-case valuation produces a price target of \$929.75, representing only about 3% upside. While the bull case provides greater potential upside, the bear case shows meaningful downside if growth slows or investors become less willing to pay a premium valuation (Costco Wholesale Corporation, “Annual Report”; Costco Wholesale Corporation, “Stock Info”).

Costco appears to be a strong company trading near fair value. I would not view the current price as attractive enough to support a BUY rating, but the company’s financial strength

and growth profile also do not support a SELL rating. For those reasons, HOLD is the most appropriate recommendation based on this analysis.

Works Cited

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