

Initiating Coverage:

Costco Wholesale Corporation (\$COST)

Stocking Up On Loyalty Amid Trade Headwinds

Key Take-away: Costco continues to deliver strong results with its membership model, disciplined expansion strategy, and strong consumer loyalty. Steady traffic growth and resilient same-store sales performance company-wide underscore Costco’s ability to both compete and thrive even in challenging macroeconomic conditions.

Aggressive Warehouse Expansion: Costco is launching one of its largest expansion pushes in recent history, with plans to spend over \$5 billion in fiscal 2025 on new warehouse openings and updates to current stores. In its most recent quarter, the company reported that it had opened 17 new warehouses, including two relocations, with another ten on the docket for the remainder of the year. The expansion is being fully financed from operating cash, supporting Costco's ability to fund growth without compromising financial stability.

Fast Lane Shopping at Costco: Costco is testing scan-and-go checkout in some warehouses in an effort to shorten long lines, speed up parking lot turnover, and cut traffic at congested stores. CEO Ron Vachris said on a Q3 earnings call that early returns on the fast checkout have been "extremely successful." The move is the latest attempt to improve member experience and give consumers more ways to shop. Costco also introduced personalized product recommendations and a buy now pay later option through Affirm. These digital enhancements are already making an impact, with online sales excluding gas accounting for approximately 12% of total sales.

Valuation: We initiate coverage with a \$1106.00 PT.



Consortium Research Group
Consumer | Food & Staples
August 10th, 2025

Stock Rating: Overweight

Price Target: \$1106.00

Price: \$980.98

Potential Upside/Downside: 12.8%

Ticker: \$COST

Market Cap: \$435.04B

Shares Outstanding: 429mm

Dividend Yield: 0.53%



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Company Overview

Company Description: Costco is a global membership-based warehouse retailer offering a broad range of merchandise, from groceries and household essentials to appliances and electronics. With hundreds of locations worldwide, the company's model centers on maintaining low prices and driving high sales volumes by focusing on a curated selection of both nationally branded and private-label products, fostering strong customer and membership loyalty.

Operational Efficiency & Member Loyalty: Costco's success rests on the foundation of its membership-based business generating stable recurring revenue and high customer retention with renewal rates well more than 90%. Its operations are based on keeping costs at a minimum by aggressively negotiating with suppliers and offering a chosen selection of high-demand items in bulk. Kirkland Signature, the company's private-label brand, maximizes profit margins and reinforces store loyalty by emphasizing high volumes over high markups. It keeps Costco in the green even on low-margin products, and operating discipline carries over into member satisfaction. Loyal members spend more, renew year after year, and drive the scale economics that keep prices down, which in turn drive the value that drives the cycle.

Private Label Giant: Costco's private brand, Kirkland Signature, is a huge success driver for Costco, accounting for about \$86 billion in annual sales, or roughly one-third of the company's total revenue. While first launched with the intention of unifying Costco's disjointed private brand lines under one umbrella name, Kirkland's product lineup now includes hundreds of categories from grocery staples like peanut butter to premium items like wine and golf clubs.

Industry Overview

Private Label Growth Across Retail: Private-label products have been gaining share across global retail as consumers prioritize value without sacrificing quality. Amid inflation fatigue and heightened price sensitivity, more shoppers are shifting to private-label brands over higher-cost national alternatives. In 2024, private-label sales reached record highs, outpacing growth in national brands.

Pressures From Tariffs & Trade Policy: Warehouse retailers source heavily externally from Asia and other low-cost regions, making the industry particularly vulnerable to tariffs and shifting trade policies. Recent U.S. tariff expansions in 2025 raised average import taxes and broadened coverage, pressuring retail supply chains. Costco has acknowledged the risk, with its CFO Gary Millerchip noting tariffs "raise costs" and are not positive for consumers. Roughly one-third of Costco's U.S. sales come from imports, with only ~8% from China, limiting direct exposure. Costco's scale and vendor leverage along with the Kirkland private label help Costco negotiate price concessions, adjust sourcing, and maintain competitive pricing. Prolonged tariffs could still put pressure on the company, but Costco's integrated model and private-label strength position it better than peers to protect its low-pricing.

Shift to Digital First Retail: The retail industry is experiencing a rapid shift toward e-commerce and hybrid shopping models, driven by further consumer demand for convenience and speed. Competitors like Walmart and Target have heavily invested in delivery infrastructure, curbside pickup, and digital engagement. While Costco's in-store treasure-hunt model continues to be a key differentiator, the company has expanded its outreach capabilities through partnerships with Instacart, same-day grocery delivery, and an expanding portfolio of digital membership features. Its limited but growing curbside pickup trials could also strengthen suburban and high-traffic markets.

Peer Comparisons

Comparable Companies						
\$mm						
Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM	
Target Corporation (NYSE:TGT)	\$47,890	\$64,466	11.6x	\$105,881	\$8,961	
The Kroger Co. (NYSE:KR)	\$49,084	\$69,549	20.4x	\$146,972	\$7,982	
Walmart Inc. (NYSE:WMT)	\$827,809	\$894,046	44.3x	\$685,086	\$42,757	
BJ's Wholesale Club Holdings, Inc. (NYSE:BJ)	\$14,277	\$16,934	25.1x	\$20,737	\$1,090	
Costco	\$435,042	\$428,550	55.6x	\$268,776	\$12,442	

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
Target Corporation (NYSE:TGT)	7.2x	28.1%	8.5%	5.6%	(0.7%)
The Kroger Co. (NYSE:KR)	8.7x	23.8%	5.4%	3.2%	(2.1%)
Walmart Inc. (NYSE:WMT)	20.9x	24.9%	6.2%	4.3%	4.2%
BJ's Wholesale Club Holdings, Inc. (NYSE:BJ)	15.5x	18.6%	5.3%	4.0%	2.8%
Costco	34.4x	12.8%	4.6%	3.8%	5.9%

High	34.44x	28.1%	8.5%	5.6%	5.9%
75th Percentile	20.91x	24.9%	6.2%	4.3%	4.2%
Average	17.36x	21.6%	6.0%	4.2%	2.0%
Median	15.53x	23.8%	5.4%	4.0%	2.8%
25th Percentile	8.71x	18.6%	5.3%	3.8%	-0.7%
Low	7.19x	12.8%	4.6%	3.2%	-2.1%

Costco Valuation	
Implied Enterprise Value (25th Percentile)	\$ 108,410
Implied Enterprise Value (Median)	\$ 193,273
Implied Enterprise Value (75th Percentile)	\$ 260,161

Implied Share Price (25th Percentile)	\$ 256.81
Implied Share Price (Median)	\$ 448.16
Implied Share Price (75th Percentile)	\$ 598.99

Source: CapIQ

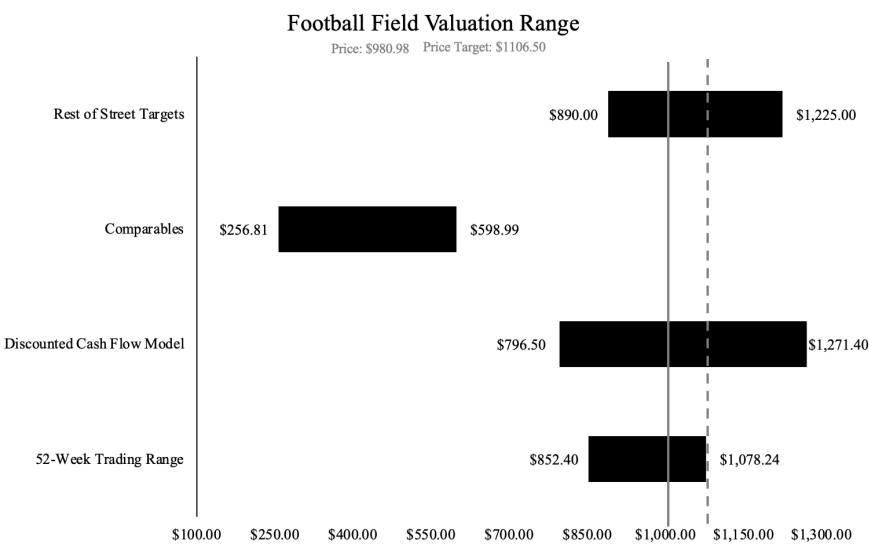
Investment Theses

Global Sourcing Leverage Amid Tariff Uncertainty: Threatened reinstatements by a Trump administration could strangle the retail sector overall, but Costco's scale and established relationships with suppliers give it unique negotiating leverage in contract talks and flipping sources. Its ability to consolidate shipping, pre-purchase inventory before changes in policy, and expand domestic manufacturing partnerships reduces landed cost volatility. These positives put Costco in a position to maintain its value and earnings stability, underpinning our base case premium valuation.

Membership Strength Driving Consistent Growth: Costco's membership base is a consistent, high-margin revenue stream supporting the company's consistent growth, even in volatile economic climates. With higher than 90% renewal rates and growth potential in underpenetrated markets, the model remunerates aggressive pricing while ensuring consumer loyalty. In an environment where retail prices are rising everywhere, Costco's ability to maintain an appealing value proposition leads customers to keep renewing and spending more over the longer term. A price increase in membership fees, historically occurring every five or six years, serves as a near-term EPS catalyst while reaffirming Costco's competitive edge over rivals.

Price Target & Valuation

Our analysis gives \$COST a price target of \$1106.00 and an overweight rating.



Potential Downsides to Our Rating

Tariff & Inflation Pressures: Costco undergoes slowing comparable sales expansion with inflationary pressure on discretionary consumption and secondary market refresh rates softening. Import tariffs and supply chain costs erode the margin. Persistent cost pressures drive selective price increases, which risk member retention and reduced traffic.

Expansion Risks & Competitive Pressures: Aggressive foreign store rollout could underperform due to lower brand penetration and regulatory hurdles. Currency headwinds, rising labor expenses, and host-country warehouse club competition could also detract from profitability.

Our Price Target: \$1106.00

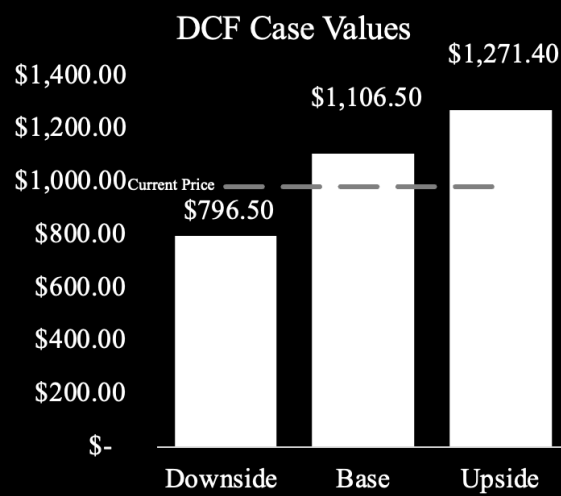
Our base case assumes Costco maintains membership renewal rates, with sales growth supported by steady traffic and Kirkland Signature penetration. Stable operating margins should be sustained as scale efficiencies and private-label sourcing offset inflationary pressures. While tariffs may add incremental import costs, Costco’s supplier relationships and pricing discipline should preserve its low-price value proposition. This valuation aligns with the sector’s current 30–34x forward earnings multiple.

Our Upside Case: \$1271.00

Assumes stronger-than-expected sales growth in the high single digits, driven by accelerated Kirkland Signature penetration, higher traffic, and expansion of e-commerce and delivery channels. Sustained membership fee growth, minimal tariff impact, and improved operating leverage could support multiple expansion above 34x forward earnings.

Our Downside Case: \$796.00

Costco experiences slower traffic growth and softer consumer spending, leading to weaker same-store sales and reduced operating leverage. A pullback in consumer confidence could limit pricing power, while persistent cost inflation and supply chain inefficiencies erode margins. In this scenario, the market could re-rate Costco closer to the low end of its historical earnings multiple range.



Projections

Income Statement (\$mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	254,453	274,028	294,896	316,929	340,154	10.2%
EBITDA	11,522	12,442	17,694	19,016	20,409	21.0%
EBIT	9,285	10,084	11,206	12,043	12,926	11.7%
NOPAT	4,127	5,191	5,986	6,310	6,912	18.8%
Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	4.5%	4.5%	6.0%	6.0%	6.0%	5.4%
EBIT Margin	3.6%	3.7%	3.8%	3.8%	3.8%	3.7%
Revenue Growth	5.0%	7.7%	7.6%	7.5%	7.3%	7.0%
EBIT Growth	9.2%	8.6%	11.1%	7.5%	7.3%	8.7%
Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	30.5x	26.2x	72.0x	66.2x	60.9x	51.1x
EV/Sales	1.7x	1.6x	1.5x	1.4x	1.3x	1.5x
EV/EBITDA	37.3x	34.5x	24.3x	22.6x	21.0x	27.9x
FCF Yield	3.3%	3.8%	1.4%	1.5%	1.6%	2.3%

About \$COST

Costco Wholesale Corporation (\$COST), founded in 1983 and headquartered in Issaquah, Washington, operates as a leading membership-based warehouse retailer. The company runs warehouses in the United States and internationally, offering a curated selection of bulk-packaged groceries, appliances, apparel, and more at low prices. Its private-label Kirkland Signature brand, scale efficiencies, and strong member loyalty drive consistent revenue growth. Costco's mission is to provide quality goods and services at the lowest possible prices.

Disclosures & Ratings

Consortium Equity Research does not hold any professional relationships with any reported equities.

Overweight means the analyst team believes the stock price will outperform the coverage industry benchmark (TMT, Healthcare, Industrial, Consumer, FIG, Energy & Sustainability) in the next 6-12 months. **Equal Weight** means the team expects performance in line with the industry benchmark. **Underweight** means the team expects underperformance relative to the industry benchmark.

Appendix

Costco

Discounted Cash Flow

Active Case:	2 Base
Current Share Price	\$980.98

DCF Analysis (\$mm)											
	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
	12/31/20	12/31/21	12/31/22	12/31/23	12/31/24	12/31/2025	12/31/26	12/31/27	12/30/28	12/30/29	12/31/30
Stub						0.61	1.61	2.61	3.61	4.61	5.61
Discount Period						0.20	0.89	1.89	2.89	3.89	4.89
Revenue	170,761	195,929	227,227	242,290	254,453	274,028	294,896	316,929	340,154	364,598	390,284
Revenue Growth	0%	15%	16%	7%	5%	8%	8%	7%	7%	7%	7%
Core Merchandise	140,670	160,426	176,256	189,017	199,656	218,752	236,252	254,857	274,609	295,548	317,714
Ancillary & Other Busin	26,550	31,626	46,747	48,693	49,969	50,059	53,063	56,114	59,200	62,308	65,424
Membership Fees	3,541	3,877	4,224	4,580	4,828	5,216	5,581	5,958	6,345	6,742	7,146
EBIT	5,435	6,792	7,911	8,505	9,285	10,084	11,206	12,043	12,926	13,855	14,831
EBIT Margin	3%	3%	3%	4%	4%	4%	4%	4%	4%	4%	4%
Tax Expense	1,308	1,601	1,925	2,195	2,373	2,578	2,802	3,011	3,231	3,464	3,708
Effective Tax Rate	24%	24%	24%	26%	26%	26%	25%	25%	25%	25%	25%
NOPAT	4,127.00	5,191.00	5,986.00	6,310.00	6,912.00	7,506.00	8,404.55	9,032.48	9,694.39	10,391.03	11,123.08
D&A	1,645	1,781	1,900	2,077	2,237	2,358	6,488	6,972	7,483	8,021	8,586
Capex	(2,810)	(3,588)	(3,891)	(4,323)	(4,710)	(5,109)	8,257	8,795	9,354	9,935	10,538
Changes in NWC	(2,226)	(1,346)	1,224	(1,714)	(425)	(1,605)	590	634	680	729	781
UFCF	10,808	11,906	10,553	14,424	14,284	16,578	6,045	6,576	7,143	7,748	8,391
PV of FCF						16,316	5,623	5,640	5,648	5,648	5,640

Weighted Average Cost of Capital (\$mm)	
Market Risk Premium	4.33%
Beta	0.97
Risk Free Rate	4.39%
Cost of Equity	8.42%
Weighted Average Cost of Debt	3.10%
Tax Rate	25.00%
Cost of Debt	0.04%
Total Equity	\$435,042
Total Debt	(\$5,478)
Equity/Total Capitalization	98.12%
Debt/Total Capitalization	1.88%
WACC	8.46%

Terminal Value	
Perpetuity Growth Method	
2034 FCF	\$8,391
Growth	3.50%
Terminal Value	\$169,173
PV of Terminal Value	\$113,710
PV of Projection Period	\$44,515
PV of Terminal Value	\$113,710
Implied TEV	\$158,225
(-) Debt	\$8,358
(+) Cash	\$13,836
Implied Equity Value	\$163,703
Basic Shares Outstanding	443
Implied Share Price	\$369.14
Upside/Downside	-62.37%

Implied Exit BF EV/EBITDA	10.7x
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Terminal Value	
Exit Multiple Method	
2034 EBITDA	\$23,417
EV/EBITDA Exit Multiple	28.0x
Terminal Value	\$655,676
PV of Terminal Value	\$440,714
PV of Projection Period	\$44,515
PV of Terminal Value	\$440,714
Implied TEV	\$485,229
(-) Debt	\$8,358
(+) Cash	\$13,836
Implied Equity Value	\$490,707
Diluted Shares Outstanding	443
Implied Share Price	\$1,106.50
Upside/Downside	12.8%

Implied PGR	6.4%
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Blended Share Price	
Perpetuity Growth Method	0%
Exit Multiple Method	100%
Blended Share Price	\$1,106.50
Upside/Downside	12.80%