

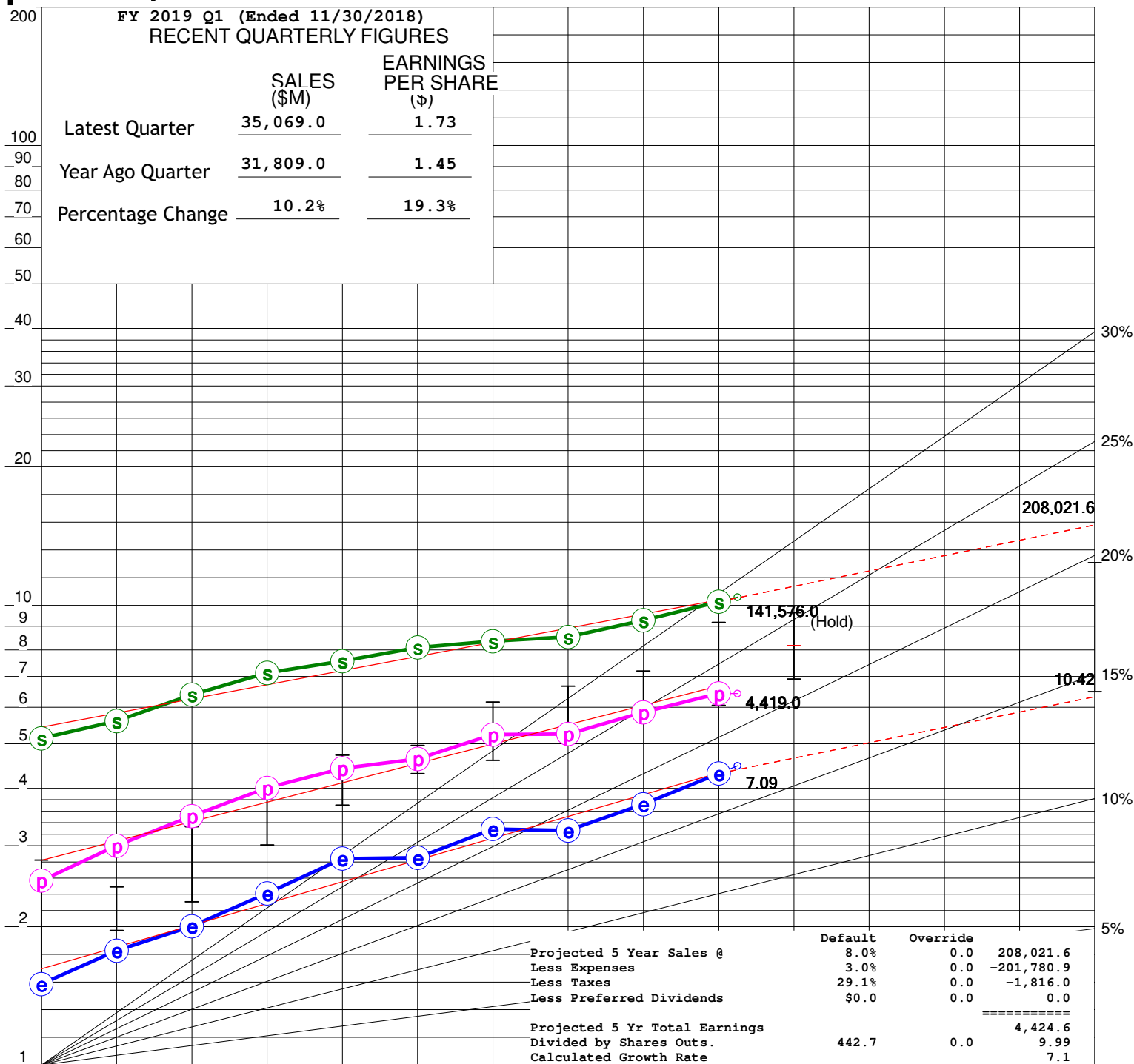


# Stock Selection Guide

|                       |                    |                |            |
|-----------------------|--------------------|----------------|------------|
| Company               | Costco Wholesale   | Price Date     | 02/08/19   |
| Study by              | WEN                | Data Date      | 02/01/19   |
| Sector                | Consumer Defensive | Last Judgment  | 02/11/19   |
| Industry              | Discount Stores    | Data Source    | BI         |
| Preferred(\$M)        | 0.0                | Reference      | Morningsta |
| Diluted(M Shares)     | 442.7              | % Insiders     | 0.6        |
| Total Debt(\$M)       | 6,480.0            | % Institutions | 110.2      |
| % Tot Debt to Tot Cap | 34.8               | Quality        |            |

## 1 Growth Analysis

NAS: COST



- |                                   |       |  |        |
|-----------------------------------|-------|--|--------|
| (1) Historical Sales Growth       | 7.3 % | (3) Historical Earnings Per Share Growth       | 11.5 % |
| (2) Estimated Future Sales Growth | 8.0 % | (4) Estimated Future Earnings Per Share Growth | 8.0 %  |
| (5) Sales Growth R <sup>2</sup>   | 0.96  | (6) Earnings Per Share Growth R <sup>2</sup>   | 0.97   |

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## 2 QUALITY ANALYSIS

Company Costco Wholesale (COST)

02/08/19

|                                    | 2009            | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 5 YEAR AVG. | TREND<br>UP / DOWN |
|------------------------------------|-----------------|------|------|------|------|------|------|------|------|------|-------------|--------------------|
| <b>A</b> % Pre-tax Profit on Sales | 2.4             | 2.6  | 2.7  | 2.8  | 2.9  | 2.8  | 3.1  | 3.0  | 3.1  | 3.1  | 3.0         | UP                 |
| <b>B</b> % ROE (Beginning Yr)      | <del>12.7</del> | 12.7 | 13.2 | 14.1 | 16.2 | 19.4 | 19.9 | 22.0 | 23.1 | 31.4 | 23.2        | UP                 |
| <b>C</b> % LT Debt to Equity       | 21.8            | 19.2 | 10.2 | 11.0 | 47.3 | 42.6 | 45.4 | 35.0 | 66.1 | 53.0 | 48.4        | UP                 |

## 3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS

CURRENT PRICE (P/E) 207.75 (28.2) 52-WEEK HIGH (P/E) 245.16 (33.3) 52-WEEK LOW (P/E) 175.79 (23.9)

| Fiscal Year       | High Price | Low Price | EPS                  | High P/E | Low P/E | Dividend          | % Payout        | % High Yield |
|-------------------|------------|-----------|----------------------|----------|---------|-------------------|-----------------|--------------|
| 1 2014            | 126.1      | 109.5     | 4.65                 | 27.1     | 23.5    | 1.330             | 28.6            | 1.2          |
| 2 2015            | 156.9      | 117.0     | 5.37                 | 29.2     | 21.8    | 1.510             | 28.1            | 1.3          |
| 3 2016            | 169.7      | 138.2     | 5.33                 | 31.8     | 25.9    | 1.700             | 31.9            | 1.2          |
| 4 2017            | 183.2      | 142.1     | 6.08                 | 30.1     | 23.4    | 1.900             | <del>31.3</del> | 1.3          |
| 5 2018            | 233.5      | 154.1     | 7.09                 | 32.9     | 21.7    | 2.140             | 30.2            | 1.4          |
| 6 AVERAGE         |            | 132.2     |                      | 30.2     | 23.3    |                   | 29.7            |              |
| AVERAGE P/E RATIO |            | 26.8      | PROJECTED P/E RATIO  |          | 26.1    | TTM EPS           |                 | 7.37         |
| CURRENT P/E RATIO |            | 28.2      | PEG RATIO            |          | 3.3     | FTM EPS           |                 | 7.96         |
| RELATIVE VALUE    |            | 105.4%    | PROJ. RELATIVE VALUE |          | 97.6%   | AVG TTM + FTM EPS |                 | 7.66         |

## 4 EVALUATING REWARD and RISK over the next 5 years

### A FUTURE HIGH PRICE ANALYSIS -- NEXT 5 YEARS

Selected High P/E 30.2 X Estimated High Earnings/Share 10.42 = Forecast High Price \$ 314.7

### B FUTURE LOW PRICE ANALYSIS -- NEXT 5 YEARS

(a) Sel. Low P/E 23.3 (as adj.) X Estimated Low Earnings/Share 7.09 = \$ 165.2

(b) Average 5-Year Low Price = 132.2

(c) Recent Severe Low Price = 142.1

(d) Price Dividend Will Support = Present Divd. + High Yield = 2.28 + 0.014 = 164.2

Selected Estimated Low Price = \$ 165.2

### C PRICE RANGES

Forecast High Price 314.7 - Estimated Low Price 165.2 = Range 149.5 25% of Range = 37.4

BUY (Lower 25% of Range) = 165.2 to 202.6

MAYBE (Middle 50% of Range) = 202.6 to 277.3

SELL (Upper 25% of Range) = 277.3 to 314.7

Current Price 207.75 is in the Hold Range

### D UPSIDE/DOWNSIDE ANALYSIS (Potential Gain vs. Risk of Loss)

(Forecast High Price 314.7 - Current Price 207.75) ÷ (Current Price 207.75 - Estimated Low Price 165.2) = 2.5 To 1

## 5 TOTAL RETURN ANALYSIS

### A CURRENT YIELD

Present Full Year's Dividend \$ 2.280 ÷ Current Price of Stock \$ 207.75 = 1.1 % Present Yield or % Returned on Purchase Price

### B AVERAGE YIELD - USING FORECAST HIGH P/E

Avg. % Payout 29.7 ÷ Forecast High P/E 30.2 = Avg. Yield 1.0

### AVERAGE YIELD - USING FORECAST AVERAGE P/E

Avg. % Payout 29.7 ÷ Forecast Avg P/E 26.8 = Avg. Yield 1.1

### C % COMPOUND ANNUAL TOTAL RETURN - USING FORECAST HIGH P/E

Average Yield 1.0 % + Annual Appreciation 8.7 % = Compound Annual Total Return 9.6 %

### D % PROJECTED AVERAGE RETURN - USING FORECAST AVERAGE P/E

Average Yield 1.1 % + Annual Appreciation 6.1 % = Projected Average Total Return 7.2 %

# PERT-A Graph

Company Costco Wholesale (COST)

