

Costco Wholesale Corp

COST
NASDAQ

B Outperform
Data as of 02/01/2019

SCHWAB EQUITY RATING

B Outperform
Percentile Ranking: 13
Data as of 02/01/2019

Last week's rating: **B** Outperform
Percentile Ranking: 11
Data as of 01/25/2019

A	1-10	Strongly Outperform	BUY
B	11-30	Outperform	BUY
C	31-70	Marketperform	HOLD
D	71-90	Underperform	SELL
F	91-100	Strongly Underperform	SELL

Schwab Equity Ratings is a quantitative measure of the equity's prospects for stock price appreciation over the next twelve months in relation to its market peers.

For more details about the quantitative model's design and intent, please review the Schwab Equity Foundations document.

For more information on important disclosures please visit page 4 within this report.

PRICE VOLATILITY OUTLOOK

Low Below average price volatility
Data as of 02/01/2019

Last week's rating: Low
Data as of 01/25/2019

High	Above average price volatility
Medium	Average price volatility
Low	Below average price volatility
N/A	Volatility score not available

Price Volatility Outlook measures the degree of variance typically demonstrated by the equity in relation to its peers within the same A-F ratings group. The outlook's measurement is based on a six month forecast.

Investment suitability is partially dependent on your portfolio risk tolerance. Positive or negative connotations associated with the price volatility outlook score should mirror your personal risk appetite. For more information, please consult Managing a Portfolio Using Schwab Equity Ratings.

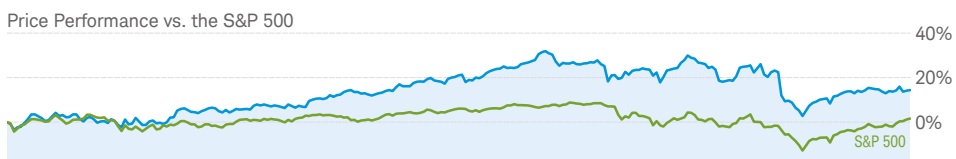
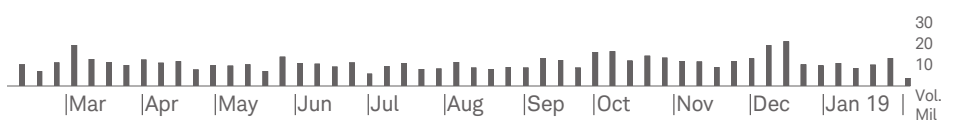
RATIONALE BEHIND OUR **B** RATING ON COST

For details about inputs to Schwab Equity Rating, see "Schwab Equity Ratings Foundations" in the "Stocks" article library under Market Insight. ▲ IMPROVED VS. PREVIOUS WEEK ▼ DECLINED VS. PREVIOUS WEEK

C VALUATION GRADE	THIS WEEK	LAST WEEK	IMPORTANCE
Balance Sheet Evaluation	▲ Positive	Neutral	High
Income Statement Evaluation	Negative	Negative	Medium
C QUALITY GRADE			
Profitability	Positive	Positive	High
Capital Intensity	Negative	Negative	Medium
A SENTIMENT GRADE			
Price Momentum	Positive	Positive	Medium
Analyst Sentiment	Neutral	Neutral	Low
Investor Sentiment	Positive	Positive	Medium

PRICE & VOLUME HISTORY

COST Daily Close Prices
Data source: Reuters



BUSINESS SUMMARY

Source: Reuters

Costco Wholesale Corporation is engaged in the operation of membership warehouses in the United States and Puerto Rico, Canada, the United Kingdom, Mexico, Japan, Australia, Spain, and through its subsidiaries in Taiwan and Korea. As of August 28, 20...

For more details, see page 2.

OVERVIEW

Source: Reuters

Price as of 2/5/19	\$211.61
Market Capitalization	93.2 Billion
Asset Class	Large Cap
Beta	0.94

SECTOR/INDUSTRY

Source: S&P Global

Sector	Consumer Staples
Industry	Food & Staples Retailing
Sub-Industry	Hypermarkets & Super Centers

Schwab Sector Viewpoint Marketperform

METRICS

Source: Reuters

VALUE METRICS	COST	S&P 500
P/E last 4Q	28.5	20.0
P/E forecast EPS	27.5	27.1
P/Free Cash Flow last 4Q	49.7	19.0
P/Sales last 4Q	.64	2.05
Price/Book	7.1	7.5
Dividend Yield(%)	1.1	2.1

GROWTH METRICS (%)

1 year sales growth	9.1	9.7
3 year sales growth	6.8	12.0
1 year EPS growth	18.0	22.6
3 year EPS growth	9.9	24.0
1-year forecast EPS growth	8.4	17.4
Long term growth rate 3-5 years	10.5	15.4
1 year dividend growth	11.9	6.9
3 year dividend growth	12.2	12.3

MOMENTUM METRICS (%)

4 week stock price change	1.5	6.3
26 week stock price change	-5.5	-4.2

FINANCIAL METRICS (%)

Gross margin	12.9	43.0
Net margin	2.3	10.2
Return on assets	8.0	4.3
Return on equity	27.1	16.0
Return on invested capital	16.7	13.4
Long-term debt/capital	.32	.44

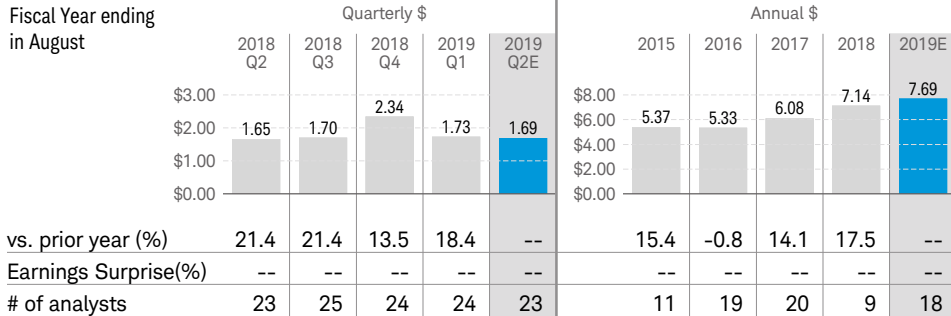
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EARNINGS PER SHARE

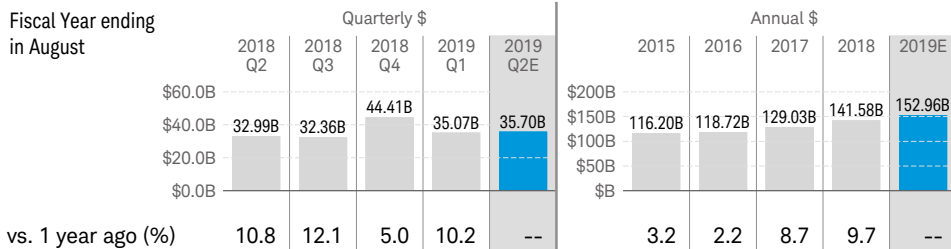
Earnings data source: Reuters



Next earnings announcement is expected in the week of 3/7

REVENUE

Revenue data source: Reuters



ANNUAL EARNINGS FORECAST

Source: Reuters

	MEAN FORECAST	CONSENSUS CHANGE IN LAST 30 DAYS	FORECAST RANGE	NUMBER OF FORECASTS
08/31/2019	\$7.69	-\$0.01	\$7.47-\$7.85	18
08/31/2020	\$8.37	\$0.00	\$8.00-\$8.94	28
Next 5 Yr. Growth Rate	10.5%	-0.6%	7.1%-14.0%	7

DIVIDENDS

Dividends data source: Reuters



Dividends are paid on a Quarterly basis.

OTHER OPINIONS

CFRA RANKING SINCE 01/05/2017



Morningstar Rating RATING SINCE 01/09/2019



Credit Suisse Rating RATING SINCE 05/20/2009

UNDERPERFORM NEUTRAL **OUTPERFORM**

Argus 12 Month Rating RATING SINCE 10/08/2008

SELL HOLD **BUY**

Ned Davis Rating RATING SINCE 01/14/2019

SELL **NEUTRAL** BUY

Market Edge Second Opinion® RATING SINCE 01/22/2019

AVOID **NEUTRAL** LONG

Reuter's Average Rating RATING SINCE 02/04/2019

NO OPINION SELL UNDER-PERFORM HOLD **OUT-PERFORM** BUY

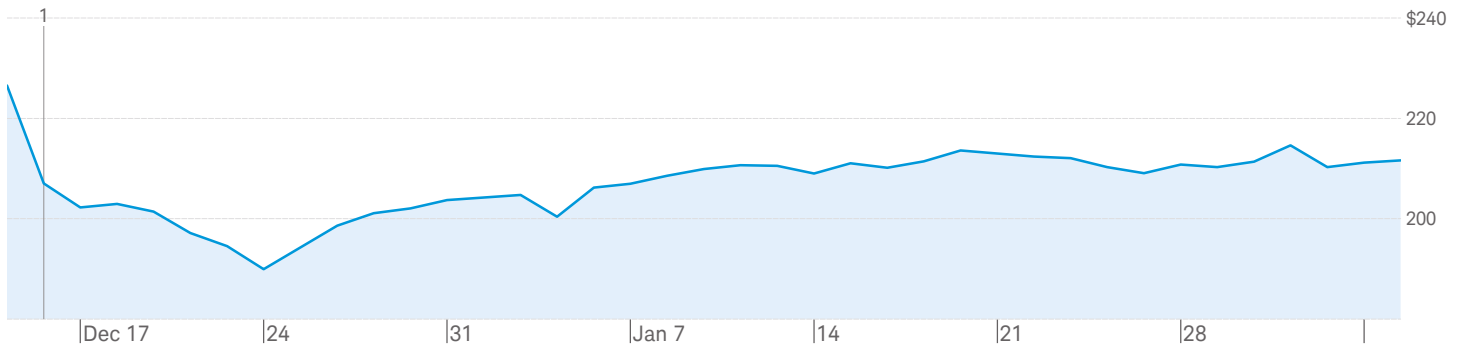
BUSINESS DESCRIPTION

Source: Reuters

Costco Wholesale Corporation is engaged in the operation of membership warehouses in the United States and Puerto Rico, Canada, the United Kingdom, Mexico, Japan, Australia, Spain, and through its subsidiaries in Taiwan and Korea. As of August 28, 2016, the Company operated 715 warehouses across the world. The Company's average warehouse space is approximately 144,000 square feet. The Company's warehouses on average operate on a seven-day, 70-hour week. The Company offers merchandise in various categories, which include foods (including dry foods, packaged foods and groceries); sundries (including snack foods, candy, alcoholic and nonalcoholic beverages, and cleaning supplies); hardlines (including appliances, electronics, health and beauty aids, hardware, and garden and patio); fresh foods (including meat, produce, deli and bakery); softlines (including apparel and small appliances), and other (including gas stations and pharmacy).

Costco Wholesale Corp

NEWS HEADLINES



1 12/14/18 10:20 am ET... CFRA Maintains Hold Opinion on Costco Wholesale Corporation (COST 211.5 ***): We lower our 12-month target price by \$15 to \$215, or 28.1X our FY 19 (Aug.) operating EPS estimate of \$7.65 (lowered today by \$0.07) and 25.9X our FY 20 estimate of \$8.30 (reduced by \$0.10), versus COST's five-year average forward P/E multiple of 27.8X. COST reported Nov-Q operating EPS of \$1.61 versus \$1.36 (+18.4%), a penny shy of the consensus EPS forecast of \$1.62. Quarterly revenues totaled \$35.07B vs. \$31.81B (+10.2%), approximately \$400M ahead of the \$34.67B consensus. Same store sales growth of 8.8% (or 7.5% excluding the impact of gas prices, exchange rates and a previously disclosed accounting change) also surpassed consensus expectations by 250 bps. The penny miss was disappointing to us, particularly in the aftermath of the strong November sales numbers the company reported last week. Moreover, we remain concerned about the impact of slowing economic growth on the overall U.S. and Canadian retail backdrop (87% of COST's net sales in FY 18) and maintain a Hold rating. /Garrett Nelson

Costco Wholesale Corp

IMPORTANT DISCLOSURES FOR COST

Regulation Analyst Certification: The views expressed in this research report accurately reflect Schwab's quantitative research model, and no part of Schwab's compensation was, is or will be, directly or indirectly, related to the specific recommendations or views disclosed in the research report.

Note the Price Chart in the disclosures of this report which shows the rating and price history over applicable periods for this stock, including if and when coverage was terminated or suspended.

Within the previous 12 months, the percentage of companies that have a Schwab Equity Rating and for which Schwab has provided investment banking services are as follows:

- 3.3% in Buy Category (Schwab Equity Ratings and Schwab Equity Ratings International of A or B)
- 3.79% in Hold Category (Schwab Equity Ratings and Schwab Equity Ratings International of C)
- 2.81% in Sell Category (Schwab Equity Ratings and Schwab Equity Ratings International of D or F)

Price History for COST

Schwab Equity Rating History for COST



SCHWAB EQUITY RATINGS MEANING AND DISTRIBUTION

Schwab Equity Ratings are assigned to approximately 3000 U.S.-traded stocks. The Schwab Equity Ratings model universe is generally composed of the combined set of stocks in the Russell Investments' ("Russell") 3000 Index and the Standard & Poor's ("S&P") 500 Index. Additional universe coverage may be incorporated from time to time. The explanation and table below are included to assist you in using Schwab Equity Ratings as one component of your own research to evaluate stocks and investment opportunities.

Schwab rates stocks using a scale of A/B/C/D/F. Schwab's outlook is that "A" rated stocks, on average, will strongly outperform and "F" rated stocks, on average, will strongly underperform the equities market over the next 12 months. Schwab Equity Ratings are based upon a disciplined, systematic approach that evaluates each stock on the basis of a wide variety of investment criteria from three broad categories: Valuation, Quality and Sentiment. This approach attempts to gauge investor expectations since stock prices tend to move in the same direction as changes in investor expectations. Stocks with low and potentially improving investor expectations tend to receive the best Schwab Equity Ratings ("A" or "B" ratings), while stocks with high and potentially falling investor expectations tend to receive the worst Schwab Equity Ratings ("D" or "F" ratings). From time to time, Schwab may update the Schwab Equity Ratings methodology.

Schwab Equity Ratings Distribution

Schwab Equity Rating	Percentile Ranking Distribution	Distribution of Rating Within Sector	12 Month Return Outlook	General Buy/Hold/Sell Guidance*
A	1 - 10	Top 10%	Strongly Outperform	Buy
B	11 - 30	Next 20%	Outperform	Buy
C	31 - 70	Next 40%	Marketperform	Hold
D	71 - 90	Next 20%	Underperform	Sell
F	91 - 100	Bottom 10%	Strongly Underperform	Sell

*The general buy/hold/sell guidance is relative to other rated equities only. Before considering whether to take any action, an investor should consider whether equities generally are performing well in comparison to other asset classes and whether other equities in the same sector or category with the same or better rating may be more appropriate.

Investment Rating Explanation

A (Strongly Outperform): If an investor is looking to add a stock to his or her portfolio, "A" rated stocks may be the best candidates for consideration.

B (Outperform): An investor looking to add a stock to his or her portfolio might also consider a "B" rated stock, though preference should be given to "A" rated stocks.

C (Marketperform): An investor would not usually consider a "C" rated stock for purchase. An investor holding a "C" rated stock in his or her portfolio should consider continuing to hold the stock, and might monitor the stock's ongoing performance and compare the potential benefits of owning a stock with higher ratings.

D (Underperform): An investor holding a "D" rated stock should consider whether it is appropriate to continue to hold that stock in his or her portfolio. An investor would not usually consider a "D" rated stock for purchase.

F (Strongly Underperform): An investor holding an "F" rated stock should consider whether it is appropriate to eliminate that stock from his or her portfolio. An investor would not usually consider an "F" rated stock for purchase.

Percentile Rankings Explanation: Each of the approximately 3,000 stocks rated in the Schwab Equity Ratings U.S. universe is given a score that is derived from the research factors used in the Schwab Equity Ratings model. Once the stock's composite score, which includes all research factor scores, is calculated, the universe of rated stocks is divided into two groups: large-capitalization ("large-cap") stocks – generally the combined set of stocks in the Russell 1000 Index and the S&P 500 Index – and small-cap stocks – generally those stocks in the Russell 2000 Index. The large- and small-cap groups are further divided into eleven economic sectors within each capitalization group. The assignment of a final Schwab Equity Rating depends on how well a given stock's composite score ranks against the composite scores of other stocks in the same capitalization group and sector. The result is a stock's within-capitalization-group and within-sector, or cap-neutral and sector-neutral, percentile ranking. The lowest percentile rankings represent the best scores and correspond to the best letter grades. For example, in a sector of 400 rated stocks, the top 4 stocks would receive a percentile ranking of 1 and the bottom 4 stocks would receive a percentile ranking of 100. Stocks ranked in percentile groups 1-10 are rated "A" and those in percentile groups 11-30 are rated "B."

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IMPORTANT DISCLOSURES FOR COST

Model Risks

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Descriptions for Non-Rated Stocks

Category	Definition	Description
NR	Not Rated	Schwab has decided not to publish a rating on this stock due to unusual or extraordinary business circumstances related to this company. Although Schwab generally does not monitor C, D, and F rated stocks for unusual or extraordinary business circumstances, from time to time, a rating of NR may appear on a particular stock.
NA	Not Available	A Schwab Equity Rating is not available on this stock due to insufficient information about this stock.
NC	Not Covered	This stock is not currently in the Schwab Equity Ratings universe or is prohibited from coverage for regulatory or other reasons.

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¹Markit on Demand used S&P Global's data in making its calculations.