

Costco Wholesale Corporation

Recommendation **HOLD** ★ ★ ★ ★ ★

Price USD 210.27 (as of Feb 01, 2019 4:00 PM ET) **12-Mo. Target Price** USD 215.00

Report Currency USD

Investment Style Large-Cap Value

Equity Analyst Garrett Nelson

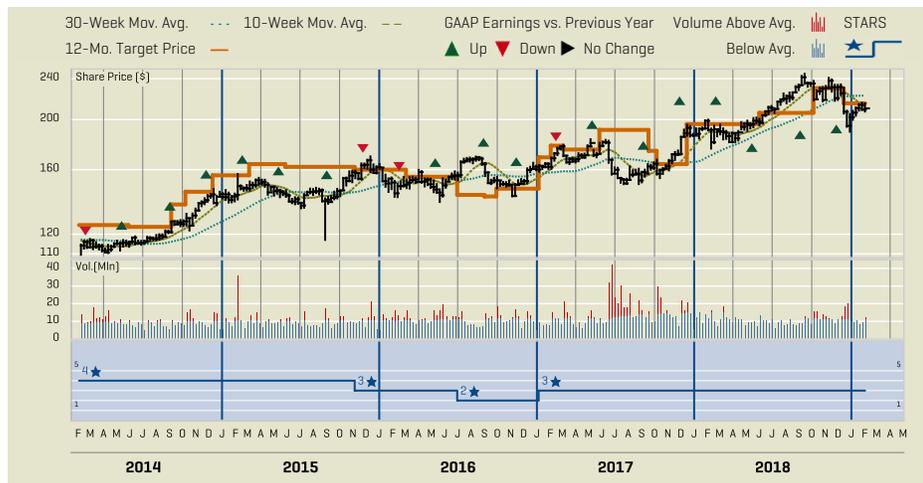
GICS Sector Consumer Staples
Sub-Industry Hypermarkets & Super Centers

Summary Costco currently operates 768 membership warehouses in the U.S., Puerto Rico, Canada, the U.K., Taiwan, Japan, Korea, Mexico, Spain, Iceland, France and Australia.

Key Stock Statistics (Source: CFRA, S&P Global Market Intelligence (SPGMI), Company Reports)

52-Wk Range	USD 245.16 - 175.79	Oper. EPS 2019E	USD 7.65	Market Capitalization(B)	USD 92.62	Beta	0.91
Trailing 12-Month EPS	USD 7.37	Oper. EPS 2020E	USD 8.30	Yield (%)	1.08	3-Yr Proj. EPS CAGR(%)	13
Trailing 12-Month P/E	29.13	P/E on Oper. EPS 2019E	28.06	Dividend Rate/Share	USD 2.28	SPGMI's Quality Ranking	A
\$10K Invested 5 Yrs Ago	\$21,268	Common Shares Outstg.(M)	440.49	Institutional Ownership (%)	71		

Price Performance



Source: CFRA, S&P Global Market Intelligence

Past performance is not an indication of future performance and should not be relied upon as such.

Analysis prepared by Equity Analyst **Garrett Nelson** on Dec 14, 2018 03:14 PM, when the stock traded at **USD 226.51**.

Highlights

- ▶ We see revenues increasing by roughly 7% in FY 19 (Aug.), following a rise of 8.8% reported in FY 18, reflecting a same-store-sales rise (excluding gas and foreign currency exchange) of about 7% in FY 19 and unit growth of about 3%. We expect membership fee income growth to rise as U.S. and Canadian membership fee increases began to take effect. We expect comparable store sales growth to be driven mostly by increased traffic, as we see average transaction growth hurt by competitive food price pressures. Sales are also seen being supported by higher retail gas prices.
- ▶ We project operating (EBITDA) margins of 4% in FY 19 and FY 20, about in line with FY 18 levels, as benefits from wider non-core business gross margins and improved sales leverage are mostly offset by a more aggressive pricing strategy, increased technology, compensation, health care costs and lower fuel margins. We expect interest expense to rise due to a rise in debt levels.
- ▶ Following share repurchases, we estimate operating EPS of \$7.65 in FY 19 and \$8.30 in FY 20, up from \$6.84 in FY 18.

Investment Rationale/Risk

- ▶ We see the shares as fairly valued amid increasing e-commerce competition despite the near-term benefits we see from more favorable sales growth comparisons and a slight easing in deflationary food pressures, coupled with the benefit from membership fee increases. COST revealed in its Aug-Q earnings release that it uncovered a "material internal weakness" related to internal financial controls.
- ▶ Risks to our recommendation and target price include a slowdown in sales due to weakness in the economy or more aggressive competition, a strengthening U.S. dollar, and increased cannibalization from new store expansion.
- ▶ Our 12-month target price of \$215 assumes the shares trade to 28.1X our FY 19 EPS estimate of \$7.65 and 25.9X our FY 20 EPS estimate of \$8.30 versus a five-year average forward multiple of 27.8X. We see the shares' valuation being maintained by relatively strong near-term sales growth trends. However, we think the lack of any meaningful margin expansion and increased competition from low-cost grocers represent significant risks in the coming quarters.

Analyst's Risk Assessment

LOW	MEDIUM	HIGH
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Our risk assessment for Costco Wholesale incorporates its strong balance sheet, its market leadership position and our expectation that consistent earnings and dividend growth will continue.

Revenue/Earnings Data

Revenue (Million USD)	1Q	2Q	3Q	4Q	Year
2019	35,069	--	--	--	--
2018	31,809	32,995	32,361	44,411	141,576
2017	28,933	29,766	28,860	42,300	129,025
2016	27,220	28,170	26,769	36,560	118,719
2015	26,866	27,454	26,101	35,778	116,199
2014	25,017	26,306	25,794	35,523	112,640

Earnings Per Share (USD)

	1Q	2Q	3Q	4Q	Year
2020	E 1.74	E 1.85	E 1.95	E 2.76	E 8.30
2019	1.73	E 1.71	E 1.80	E 2.53	E 7.65
2018	1.45	1.59	1.70	2.35	7.09
2017	1.21	1.17	1.59	2.09	6.08
2016	1.09	1.24	1.24	1.77	5.33
2015	1.12	1.35	1.17	1.73	5.37

Fiscal year ended Aug 31. Next earnings report expected: Early Mar. EPS Estimates based on CFRA's Operating Earnings; historical GAAP earnings are as reported in Company reports.

Dividend Data

Amount (USD)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
0.57	Jan 24	Feb 07	Feb 08	Feb 22 '19
0.57	Oct 24	Nov 08	Nov 09	Nov 23 '18
0.57	Aug 17	Aug 30	Aug 31	Sep 14 '18
0.57	Apr 24	May 10	May 11	May 25 '18
0.50	Jan 30	Feb 15	Feb 16	Mar 02 '18

Dividends have been paid since 2004. Source: Company reports.

Past performance is not an indication of future performance and should not be relied upon as such.

Forecasts are not reliable indicator of future performance.

Costco Wholesale Corporation

Business Summary December 14, 2018

CORPORATE OVERVIEW. Costco Wholesale [formerly Costco Companies, Inc., and prior to that, Price/Costco, Inc.] began the pioneering membership warehouse concept in 1976, in San Diego, CA. The company operated 762 warehouses worldwide as of the end of FY 18 [Aug.], mainly in the U.S. and Canada, with 51.6 million paid memberships [up 4.5% from 49.4 million in FY 17]. COST also operates an e-commerce website, costco.com, which was accounted for approximately 4% of net sales in FY 18. At the end of FY 18, Costco had approximately 245,000 total employees, of which roughly 143,000 were full-time and 102,000 were part-time employees. Approximately 6.5% [15,900] of its total employees were represented by unions.

A typical warehouse format averages about 145,000 sq. ft. Floor plans are designed for economy and efficiency in the use of selling space, in the handling of merchandise, and in the control of inventory. Merchandise is generally stored on racks above the sales floor, and is displayed on pallets containing large quantities of each item, reducing the labor required for handling and stocking. Specific items in each product line are limited to fast-selling models, sizes and colors. COST carries an average of about 3,800 stock keeping units (SKUs) per warehouse, well below the 45,000 to 140,000 SKUs of a typical discount store or supermarket.

COST has two primary types of memberships: Gold Star [individual] and Business members. As of September 2018, a Gold Star membership cost \$60 annually [increased \$5 in June 2017]. There were 40.7 million Gold Star members as of September 2018, up from 38.6 million a year earlier. Costco's member renewal rate was 90% in the U.S. and Canada and 88% on a worldwide basis at the end of FY 18.

Businesses, including individuals with retail sales or business licenses, may become Business members by paying an annual \$60 fee, with the ability to purchase add-on membership cards for \$60 each. At the end of its FY 18, there were 10.9 million Business memberships [including add-ons], up from 10.8 million a year earlier. Executive memberships, available for a \$120 annual fee [increased \$10 in June 2017], offer business and individual members savings on services such as merchant credit card processing and small business loans, as well as a 2% annual reward, up to a maximum of \$1,000 annually [increased from \$750 in June 2017], on qualified purchases. Executive members made up 37% of the primary membership base, excluding add-ons, in FY 18, down from 38% in FY 17. These members account for approximately two-thirds of total sales.

CORPORATE STRATEGY. The company thinks that low prices on a limited selection of national brand merchandise and selected private-label products in a wide range of merchandise categories produce high sales volume and rapid inventory turnover. According to COST, high levels of turnover, combined with operating efficiencies achieved by volume purchasing in a no-frills, self-service warehouse facility and the income from membership fees enable the company to operate profitably at significantly narrower gross margins than traditional retailers and even discounters and supermarkets. COST buys virtually all of its merchandise directly from manufacturers, for shipment either directly to warehouse clubs or to a consolidation point [depot], at which point shipments are combined in order to minimize freight and handling costs. The company generally receives cash from the sale of a substantial portion of its inventory at mature warehouse operations before it is required to pay vendors, even though COST often pays early to obtain payment discounts.

IMPACT OF MAJOR DEVELOPMENTS. In June 2017, the company increased membership fees for U.S. and Canadian members. Fees increased by \$5 for primary Business and Gold Star members. The Executive membership fee increased by \$10, although the maximum reward associated with Executive membership increased to \$1,000 from \$750. The membership fee increase was expected to boost Costco's earnings over about a 24-month period due to the timing of renewals and the deferred accounting treatment of the increase.

FINANCIAL TRENDS. Costco reports financial results on a fiscal year ending in August and the most recently-reported quarter was its fiscal Q1 of 2019. COST's total revenues have risen from \$118.7 billion in FY 16 to \$129.0 billion in FY 17 and \$141.6 billion in FY 18, while its EPS increased from \$5.33 to \$5.82 and \$6.84, respectively, over the same timeframe. In the three months ended November 25, 2018, the company posted an 18.4% increase in EPS over the prior year period [\$1.61 versus \$1.36]. COST's effective income tax came in at 16.9% for the quarter, down from 30.4% in the year-ago quarter [revenues were up 10.2%].

As of November 25, 2018, Costco had \$6.78 billion of cash and equivalents, up from \$6.06 billion three months earlier. COSTCO had total debt of \$6.48 billion, down slightly from \$6.58 billion three months earlier.

Costco currently pays a \$2.28/share annualized dividend, up from \$2.00 in the prior year. The company announced an increase in the quarterly dividend on April 24, 2018, to \$0.57 from \$0.50 per share.

During the company's third quarter of FY 17 [ending May], COST also paid a special dividend of \$7.00 per share. Concurrently, COST issued \$3.8 billion of senior notes, primarily to fund the dividend payment. Costco repurchased 1.756 million shares at an average price of \$183.13 in FY 18 for a total of \$322 million. The buybacks represented a decline from total repurchases of approximately 3.00 million shares for \$473 million in FY 17 and 3.18 million shares for \$477 million in FY 16. As of the end of FY 18, the company had \$2.43 billion of remaining capacity under its existing \$4.0 billion repurchase authorization, which expires on April 17, 2019.

Corporate Information

Investor Contact

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Website

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Officers

Executive VP, CFO & Director

R. A. Galanti

President, CEO & Director

W. C. Jelinek

Chairman of the Board

H. E. James

Senior VP, General

Counsel, Chief Compliance

Officer & Secretary

J. Sullivan

Board Members

C. T. Munger

H. E. James

J. S. Raikes

J. W. Meisenbach

J. W. Stanton

K. D. Denman

M. A. Wilderotter

R. A. Galanti

R. M. Libenson

S. L. Decker

W. C. Jelinek

Domicile

Washington

Founded

1976

Employees

194,000

Stockholders

8,829

Auditor

KPMG LLP - Klynveld Peat
Marwick Goerdeler

Costco Wholesale Corporation

Quantitative Evaluations						
Fair Value Rank	2	1	2	3	4	5
		LOWEST				HIGHEST
		Based on CFRA's proprietary quantitative model, stocks are ranked from most overvalued [1] to most undervalued [5].				
Fair Value Calculation	USD 181.80	Analysis of the stock's current worth, based on CFRA's proprietary quantitative model suggests that COST is overvalued by USD 28.47 or 13.5%.				
Volatility		LOW	AVERAGE	HIGH		
Technical Evaluation	NEUTRAL	Since January, 2019, the technical indicators for COST have been NEUTRAL.				
Insider Activity		UNFAVORABLE	NEUTRAL	FAVORABLE		

Expanded Ratio Analysis				
	2018	2017	2016	2015
Price/Sales	0.73	0.54	0.61	0.53
Price/EBITDA	17.41	12.73	14.68	13.04
Price/Pretax Income	23.63	17.64	19.98	17.19
P/E Ratio	32.88	26.03	30.76	26.06
Avg. Diluted Shares Outsg. (M)	442	441	441	443

Figures based on fiscal year-end price

Key Growth Rates and Averages				
Past Growth Rate [%]	1 Year	3 Years	5 Years	
Sales	9.73	6.81	6.13	
Net Income	16.98	9.65	8.98	
Ratio Analysis [Annual Avg.]				
Net Margin [%]	NM	NM	NM	
% LT Debt to Capitalization	32.31	NA	NA	
Return on Equity [%]	26.29	NA	NA	

Company Financials Fiscal year ending Aug. 31

Per Share Data [USD]	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Tangible Book Value	29.21	24.65	27.61	24.24	28.11	24.80	28.44	27.47	24.82	22.83
Free Cash Flow	6.40	9.63	1.47	4.31	4.54	3.11	3.64	4.37	3.93	1.94
Earnings	7.09	6.08	5.33	5.37	4.65	4.63	3.89	3.30	2.92	2.47
Earnings (Normalized)	6.18	5.65	5.07	5.02	4.45	4.28	3.80	3.18	2.80	2.45
Dividends	2.14	1.90	1.70	1.51	1.33	1.17	1.03	0.89	0.77	0.68
Payout Ratio [%]	22	30	32	28	28	25	26	27	26	27
Prices: High	233.52	183.18	169.73	156.85	126.12	120.20	99.28	83.95	62.12	71.00
Prices: Low	154.11	142.11	137.50	117.03	109.50	93.51	76.59	55.74	49.95	38.17
P/E Ratio: High	34.1	33.7	31.9	32.4	27.2	28.7	27.1	26.7	25.0	24.9
P/E Ratio: Low	25.4	26.1	26.5	25.4	23.8	22.8	23.6	20.1	19.2	14.0

Income Statement Analysis [Million USD]										
Revenue	141,576	129,025	118,719	116,199	112,640	105,156	99,137	88,915	77,946	71,422
Operating Income	4,480	4,111	3,672	3,624	3,220	3,053	2,759	2,439	2,053	1,785
Depreciation + Amortization	1,437	1,370	1,255	1,127	1,029	946	908	855	795	728
Interest Expense	159	134	133	124	113	99	95	116	111	108
Pretax Income	4,442	4,039	3,619	3,604	3,197	3,051	2,767	2,383	2,054	1,727
Effective Tax Rate	28.4	32.8	34.3	33.2	34.7	32.4	36.1	35.3	35.6	36.4
Net Income	3,134	2,679	2,350	2,377	2,058	2,039	1,709	1,462	1,303	1,086
Net Income (Normalized)	2,731	2,489	2,236	2,221	1,968	1,885	1,671	1,409	1,249	1,079

Balance Sheet and Other Financial Data [Million USD]										
Cash	7,259	5,779	4,729	6,419	7,315	6,124	4,854	5,613	4,749	3,727
Current Assets	20,289	17,317	15,218	16,779	17,588	15,840	13,526	13,706	11,708	10,337
Total Assets	40,830	36,347	33,163	33,017	33,024	30,283	27,140	26,761	23,815	21,979
Current Liabilities	19,926	17,495	15,575	16,539	14,412	13,257	12,260	12,050	10,063	9,281
Long Term Debt	6,487	6,573	4,061	4,852	5,093	4,998	1,381	1,253	2,141	2,130
Total Capital	20,077	17,738	17,493	16,978	17,608	16,010	13,899	14,726	13,266	12,330
Capital Expenditures	2,969	2,502	2,649	2,393	1,993	2,083	1,480	1,290	1,055	1,250
Cash from Operations	5,774	6,726	3,292	4,285	3,984	3,437	3,057	3,198	2,780	2,092
Current Ratio	1.02	0.99	0.98	1.01	1.22	1.19	1.10	1.14	1.16	1.11
% Long Term Debt of Capitalization	32.3	37.1	23.2	28.6	28.9	31.2	9.9	8.5	16.1	17.3
% Net Income of Revenue	2.21	2.08	1.98	2.05	1.83	1.94	1.72	1.64	1.67	1.52
% Return on Assets	7.26	7.39	6.94	6.86	6.36	6.65	6.40	6.03	5.60	5.23
% Return on Equity	26.3	23.2	20.5	20.6	17.7	17.5	14.1	13.1	12.6	11.3

Source: S&P Global Market Intelligence. Data may be preliminary or restated; before results of discontinued operations/special items. Per share data adjusted for stock dividends; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

Costco Wholesale Corporation

Sub-Industry Outlook

CFRA's 12-month fundamental outlook for the hypermarkets and super centers sub-industry for the next 12 months is positive, reflecting a favorable consumer spending environment in the U.S., a generally positive food inflationary environment, and lower gas prices/transportation costs, which should help boost sales and margins. Sales gains for the sub-industry accelerated in 2017 and 2018, following a period of narrower margins from wage increases and investments in e-commerce and digital initiatives, reflecting a more favorable consumer spending environment in the U.S. A generally positive domestic and global economic backdrop should be a tailwind.

Sales of supermarket items at hypermarkets and super centers totaled about \$173.5 billion in 2017, a 2.9% increase compared with the previous year, according to Progressive Grocer. Super centers currently hold a 25.4% market share of the supermarket category. Although their profit margins on grocery items are not high, super centers generate heavy store traffic by virtue of their size, resulting in greater sales of general merchandise, which have higher margins.

We anticipate that hypermarkets and super centers will report low- single-digit same-store sales growth in 2019. We see a number of positive and negative economic factors driving results going forward. Job growth appears to be steady, with the U.S. unemployment rate near record lows, and while we expect lower GDP growth than in 2018, we expect growth to be above the average rates experienced in recent years. Real wage growth has been sluggish, but is expected to accelerate. We see hypermarkets and super centers gaining market share given their price advantage compared to more traditional retail formats. Additionally, the recent drop in gas prices may

help boost spending growth from middle and lower income consumers.

Meanwhile, we see club store operators posting same-store sales growth in the mid-single digits, excluding gasoline sales and foreign exchange impacts, on increased demand from their higher-income customer bases, including small business owners, and as their low-priced leadership and high-quality product offerings attract increased traffic. We think hypermarkets and super centers should generally appeal to price-sensitive consumers. Also, because hypermarkets and super centers largely sell consumer staples such as food and beverages, this should make their sales less sensitive to changing fashions and demand for other discretionary goods than those of some other retailers. We see free cash flow being used for share repurchases, helping support earnings per share growth.

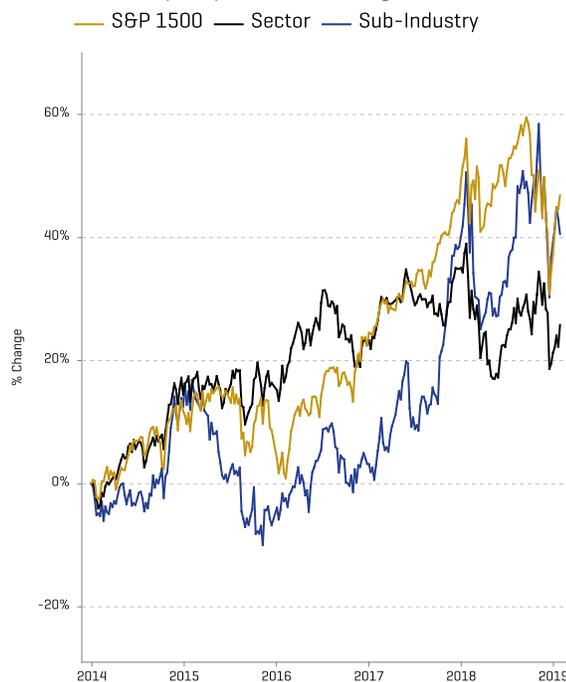
In 2018, the S&P HyperMarkets & Super Centers Index fell by 0.2%, versus a 6.8% decline for the S&P 1500. In 2017, the S&P HyperMarkets & Super Centers Index increased 34.1% versus a 18.8% increase in the S&P 1500 Index. Walmart Inc. accounts for about 70% of this index, with Costco Wholesale accounting for the remainder. The sub-industry's five-year CAGR is 6.6%, slightly above the S&P 1500 Index's 6.1% growth.

/Garrett Nelson

Industry Performance

GICS Sector: Consumer Staples Sub-Industry: Hypermarkets & Super Centers

Based on S&P 1500 Indexes
Five-Year market price performance through Feb 02, 2019



NOTE: All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS).

Past performance is not an indication of future performance and should not be relied upon as such.

Source: S&P Global Market Intelligence

Sub-Industry: Hypermarkets & Super Centers Peer Group*: Hypermarkets & Super Centers

Peer Group	Stock Symbol	Exchange	Currency	Recent Stock Price	Stk. Mkt. Cap. [M]	30-Day Price Chg. [%]	1-Year Price Chg. [%]	P/E Ratio	Fair Value Calc.	Yield [%]	Return on Equity [%]	LTD to Cap [%]
Costco Wholesale Corporation	COST	NasdaqGS	USD	210.27	92,622	2.7	8.7	29	181.80	1.1	26.3	32.3
Aeon Co., Ltd.	AONN.Y	OTCPK	USD	20.41	17,165	3.8	17.8	70	NA	1.4	4.9	35.4
Companhia Brasileira de Distribuico	CBD	NYSE	USD	26.35	7,025	20.9	12.8	22	NA	1.4	3.7	17.7
PriceSmart, Inc.	PSMT	NasdaqGS	USD	61.00	1,860	3.5	-28.0	28	54.81	1.1	10.1	10.2
Wal-Mart de Mxico, S.A.B. de C.V.	WMMV.Y	OTCPK	USD	26.05	45,474	2.7	3.5	24	NA	2.9	19.8	NA
Walmart Inc.	WMT	NYSE	USD	93.86	272,688	0.6	-11.1	54	66.64	2.2	13.0	23.7

*For Peer Groups with more than 10 companies or stocks, selection of issues is based on market capitalization.

NA- Not Available NM- Not Meaningful.

Note: Peers are selected based on Global Industry Classification Standards and market capitalization. The peer group list includes companies with similar characteristics, but may not include all the companies within the same industry and/or that engage in the same line of business.

Costco Wholesale Corporation

Analyst Research Notes and other Company News

December 14, 2018

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

October 05, 2018

10:51 am ET... CFRA KEEPS HOLD OPINION ON SHARES OF COSTCO WHOLESALE CORPORATION (COST 225.04***): We raise our 12-month target price by \$24, to \$230, or 29.8X our FY 19 (Aug.) operating EPS estimate of \$7.72 (raised today by \$0.05) and 27.4X our newly initiated FY 20 (Aug.) operating EPS estimate of \$8.40, versus COST's three year average forward P/E multiple of 27.3X. COST reported Aug-Q operating EPS of \$2.36 versus \$2.08, above the consensus EPS forecast of \$2.34 but shy of our \$2.39 EPS estimate. FY 18 (Aug.) operating EPS of \$6.84 versus \$5.82 also lagged our \$6.87 operating EPS estimate. We view positively full year FY 18 revenue growth of 9.7%, above our forecast of 8.8% growth amid higher gas sales. Same store sales growth of 9.4% in FY 18 (7.4% excluding gas sales) also topped our forecast. We view these trends positively, but our view is tempered by COST's disclosure that it has uncovered a "material weakness in internal control" related to its financial reporting practices. We think this disclosure may remove a near term catalyst from the shares. /Catherine Seifert

June 01, 2018

10:34 am ET... CFRA KEEPS HOLD OPINION ON SHARES OF COSTCO WHOLESALE CORPORATION (COST 199.64***): We raise our 12-month target price by \$10 to \$206, applying a P/E of 30X, near the mid-point of the company's 5-year range, to our FY 18 (Aug.) EPS estimate of \$6.87, up from \$6.82. The company reports May-Q adjusted EPS of \$1.70 vs. \$1.40, \$0.04 above our estimate. Comparable store sales growth, excluding gas and forex, rose 7.0%, in line with our estimate. E-Commerce sales growth remains strong with growth of 36.8% in Q and 43.1% in April, driven by expanded offerings, an improved customer experience and price investments. We see comparable store sales growth trends improving on benefits we see from both company plans to invest some U.S. tax reform benefits in price reductions and also from competitor club closings. But, we see margin pressures increasing on price cuts, company plans to increase wages (effective June 11) and from ongoing costs related to the rollout of new centralized returns facilities. We believe higher freight costs will likely be passed through to customers. /Joseph Agnese

March 08, 2018

02:01 pm ET... CFRA KEEPS HOLD OPINION ON SHARES OF COSTCO WHOLESALE CORPORATION (COST 187.36***): We keep our 12-month target of \$196, a P/E of 28.7X, near the mid-point of COST's 5-year range, our FY 18 (Aug.) EPS estimate of \$6.82, up from \$6.50 on tax reform benefits. We increase our FY 19 EPS estimate by \$0.57 to \$7.67 on lower taxes. Feb-Q adjusted EPS of \$1.42 vs. \$1.17 is \$0.02 above our estimate. Membership fee growth is benefiting from fee increases and strong new international club openings. We see sales growth benefiting from competitor club closings over the next 12 months. Yet, we see margin expansion restricted by investment in a centralized returns facility. /Joseph Agnese

December 15, 2017

09:16 am ET... CFRA KEEPS HOLD OPINION ON SHARES OF COSTCO WHOLESALE CORPORATION (COST 186.53***): We raise our 12-month target by \$32 to \$196, a P/E of 30.1X, at the mid-point of COST's five-year range, our FY 18 (August) EPS estimate of \$6.50, up from \$6.43. We see valuation benefits from strong near-term sales trends offset by increased risk as sales shift online, where

COST faces increased competition. We set FY 19 EPS at \$7.10. Nov-Q adjusted EPS of \$1.36 vs. \$1.17 is \$0.04 above our estimate. Membership fee growth continues to benefit from June fee increases and strong new international club openings. Margins expanded more than we expected on improved sales leverage. /Joseph Agnese

October 06, 2017

10:50 am ET... CFRA KEEPS HOLD OPINION ON SHARES OF COSTCO WHOLESALE CORPORATION (COST 157.02***): We cut our 12-month target by \$10 to \$164, a P/E of 25X, near the low end of COST's 5-year range, our FY 18 (Aug.) EPS estimate of \$6.43. We see valuation pressured by increased long-term growth concerns as rising e-commerce competition threatens COST's market share. We set our FY 19 EPS estimate at \$7.04. Aug-Q EPS of \$2.08 vs. \$1.77 is \$0.04 above our estimate on improved gas profits and lower taxes. Sales trends improved in Sept., but were likely supported by hurricane-related demand, in our view. We see long-term margin expansion restricted as COST prices more aggressively. /Joseph Agnese

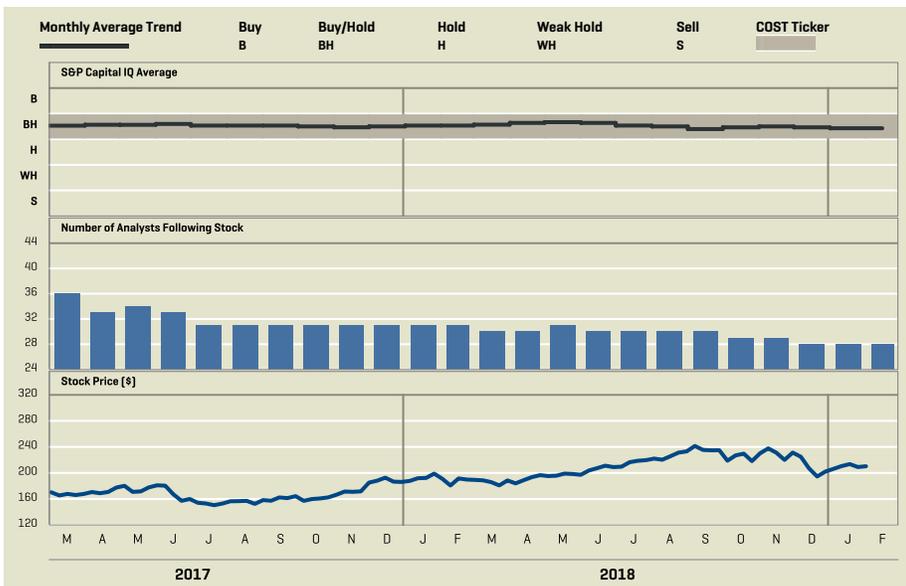
September 17, 2017

08:49 pm ET... CFRA KEEPS HOLD OPINION ON SHARES OF COSTCO WHOLESALE CORPORATION (COST 162.3***): We lower our 12-month target by \$17 to \$174, a P/E of 27X, 10% below the mid-point of COST's 5-year range, our FY 18 (Aug.) EPS estimate of \$6.43, down from \$6.54. We see valuation restricted by a slowdown in expected EPS growth due to increasing industry competition, despite easing inflation pressures. We see long-term EPS growth hurt by the expansion of food offerings from e-commerce competitors and by significant new store expansion from extreme discounters. We decrease our FY 17 EPS estimate by \$0.02 to \$5.76 as we see near-term EPS hurt by hurricane-related club closures. /Joseph Agnese

Note: Research notes reflect CFRA's published opinions and analysis on the stock at the time the note was published. The note reflects the views of the equity analyst as of the date and time indicated in the note, and may not reflect CFRA's current view on the company.

Costco Wholesale Corporation

Analysts' Recommendations



Wall Street Consensus Opinion

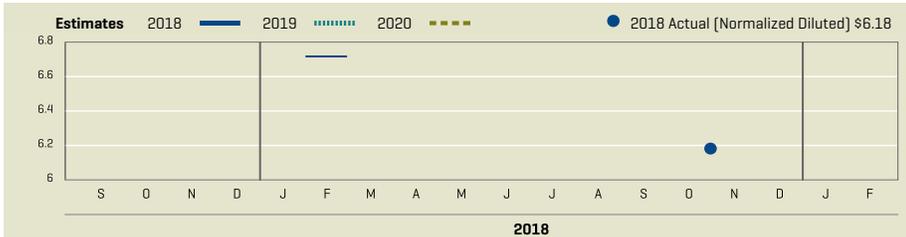
BUY/HOLD

Wall Street Consensus vs. Performance

For fiscal year 2019, analysts estimate that COST will earn USD \$7.70. For the 1st quarter of fiscal year 2019, COST announced earnings per share of USD \$1.73, representing 22.5% of the total revenue estimate. For fiscal year 2020, analysts estimate that COST's earnings per share will grow by 9% to USD \$8.37.

	No. of Recommendations	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	11	39	11	12
Buy/hold	5	18	5	5
Hold	11	39	11	10
Weak Hold	1	4	1	1
Sell	0	0	0	0
No Opinion	0	0	0	1
Total	28	100	28	29

Wall Street Consensus Estimates



Fiscal Years	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2020	8.37	8.94	8.03	23	25.1
2019	7.70	7.86	7.47	20	27.3
2020 vs. 2019	▲9%	▲14%	▲8%	▲15%	▼-8%
Q2'20	1.89	1.97	1.81	7	NM
Q2'19	1.68	1.76	1.42	21	NM
Q2'20 vs. Q2'19	▲12%	▲12%	▲27%	▼-67%	NA

Forecasts are not reliable indicator of future performance.

Note: A company's earnings outlook plays a major part in any investment decision. S&P Global Market Intelligence organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years, as well as how those earnings estimates have changed over time. Note that the information provided in relation to consensus estimates is not intended to predict actual results and should not be taken as a reliable indicator of future performance.

Note: For all tables, graphs and charts in this report that do not cite any reference or source, the source is S&P Global Market Intelligence.

Costco Wholesale Corporation

Glossary

STARS

Since January 1, 1987, CFRA Equity and Fund Research Services, and its predecessor S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, we have ranked Asian and European equities since June 30, 2002. Under proprietary STARS (Stock Appreciation Ranking System), equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index [S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index]), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

S&P Global Market Intelligence's Quality Ranking

(also known as **S&P Capital IQ Earnings & Dividend Rankings**) - Growth and stability of earnings and dividends are deemed key elements in establishing S&P Global Market Intelligence's earnings and dividend rankings for common stocks, which are designed to encapsulate the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+	Highest	B	Below Average
A	High	B-	Lower
A-	Above Average	C	Lowest
B+	Average	D	In Reorganization
NR	Not Ranked		

EPS Estimates

CFRA's earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, EPS estimates reflect either forecasts of equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by S&P Global Market Intelligence, a data provider to CFRA. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

12-Month Target Price

The equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including Fair Value.

CFRA Equity Research

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Abbreviations Used in Equity Research Reports

CAGR - Compound Annual Growth Rate
 CAPEX - Capital Expenditures
 CY - Calendar Year
 DCF - Discounted Cash Flow
 DDM - Dividend Discount Model
 EBIT - Earnings Before Interest and Taxes
 EBITDA - Earnings Before Interest, Taxes, Depreciation & Amortization
 EPS - Earnings Per Share
 EV - Enterprise Value
 FCF - Free Cash Flow
 FFO - Funds From Operations

FY - Fiscal Year
 P/E - Price/Earnings
 P/NAV - Price to Net Asset Value PEG Ratio - P/E-to-Growth Ratio PV - Present Value
 R&D - Research & Development ROCE - Return on Capital Employed ROE - Return on Equity
 ROI - Return on Investment
 ROIC - Return on Invested Capital
 ROA - Return on Assets
 SG&A - Selling, General & Administrative Expenses
 SOTP - Sum-of-The-Parts
 WACC - Weighted Average Cost of Capital

Dividends on American Depositary Receipts (ADRs) and American Depositary Shares (ADSs) are net of taxes (paid in the country of origin).

Qualitative Risk Assessment

Reflects an equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices. For an ETF this reflects on a capitalization-weighted basis, the average qualitative risk assessment assigned to holdings of the fund.

STARS Ranking system and definition:

★★★★★ 5-STARs (Strong Buy):

Total return is expected to outperform the total return of a relevant benchmark, by a notable margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★★ 4-STARs (Buy):

Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★★★ 3-STARs (Hold):

Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★★★★ 2-STARs (Sell):

Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.

★★★★★ 1-STAR (Strong Sell):

Total return is expected to underperform the total return of a relevant benchmark by a notable margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks:

In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.

Costco Wholesale Corporation

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Stocks are ranked in accordance with the following ranking methodologies:

STARS Stock Reports:

Qualitative STARS recommendations are determined and assigned by equity analysts. For reports containing STARS recommendations refer to the Glossary section of the report for detailed methodology and the definition of STARS rankings.

Quantitative Stock Reports:

Quantitative recommendations are determined by ranking a universe of common stocks based on 5 measures or model categories: Valuation, Quality, Growth, Street Sentiment, and Price Momentum. In the U.S., a sixth sub-category for Financial Health will also be displayed. Percentile scores are used to compare each company to all other companies in the same universe for each model category. The five (six) model category scores are then weighted and rolled up into a single percentile ranking for that company. For reports containing quantitative recommendations refer to the Glossary section of the report for detailed methodology and the definition of Quantitative rankings.

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STARS Stock Reports:

Global STARS Distribution as of September 28, 2018

Ranking	North America	Europe	Asia	Global
Buy	38.1%	32.7%	42.6%	37.7%
Hold	56.0%	52.8%	44.8%	54.2%
Sell	5.9%	14.5%	12.6%	8.1%
Total	100.0%	100.0%	100.0%	100.0%

Analyst Certification:

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