

Costco Case Study

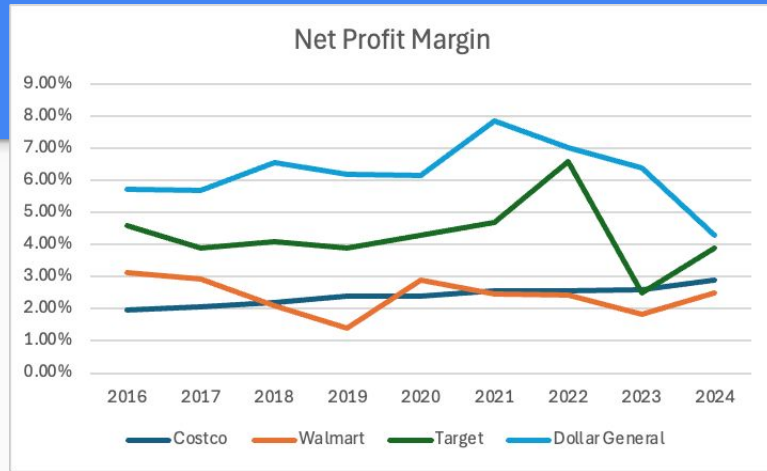
By: Forge Capital
Levi Sneller, Ian Carlson, Mia Howard, and Boyce McIntosh

Agenda

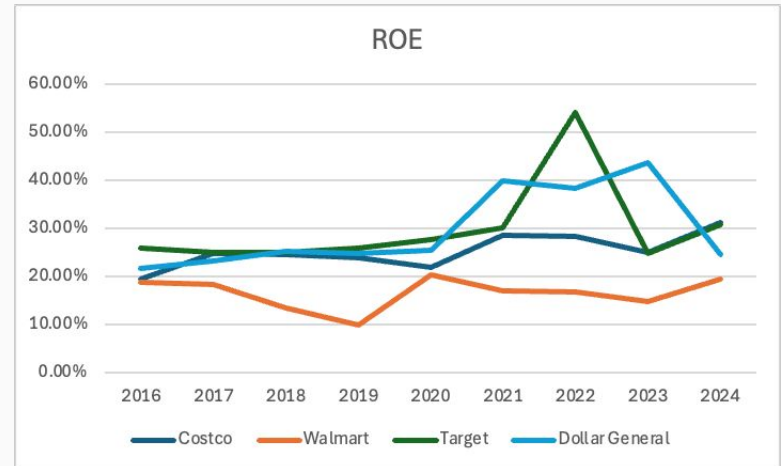
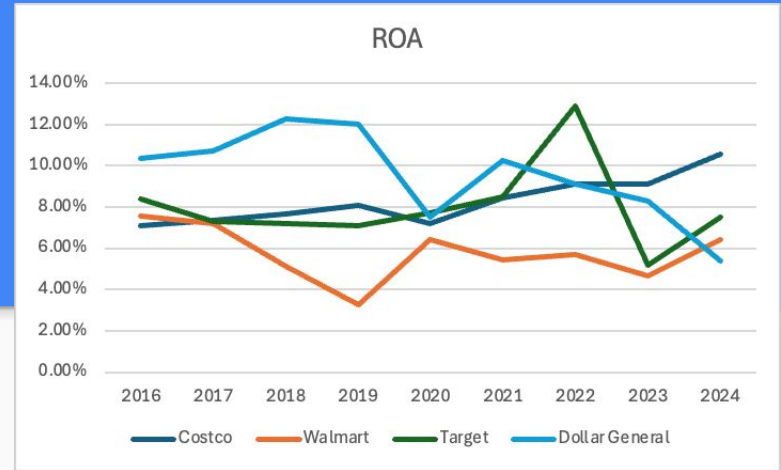
- 1) Financial Ratio Analysis
- 2) Common-Size & Percentage Change Analysis
- 3) Strategies, Strengths, & Weaknesses
- 4) Industry Challenges & Recommendations
- 5) Competitor Perspective

Financial Ratio Analysis

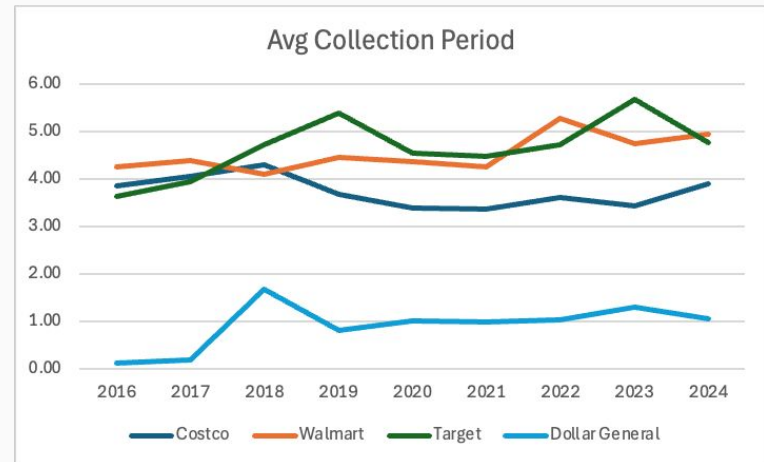
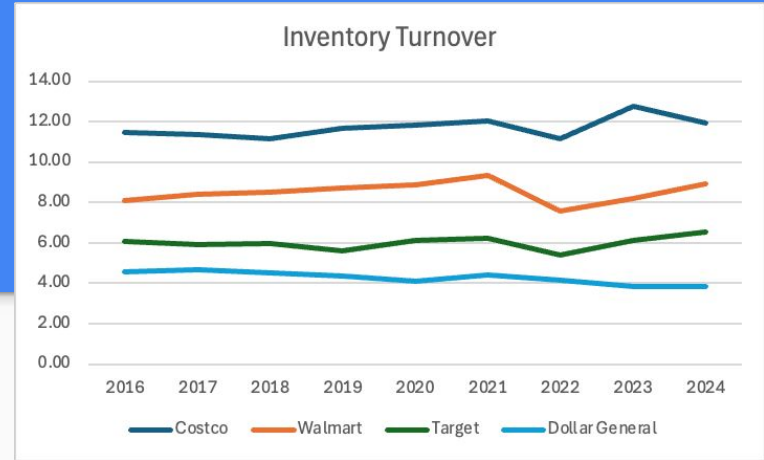
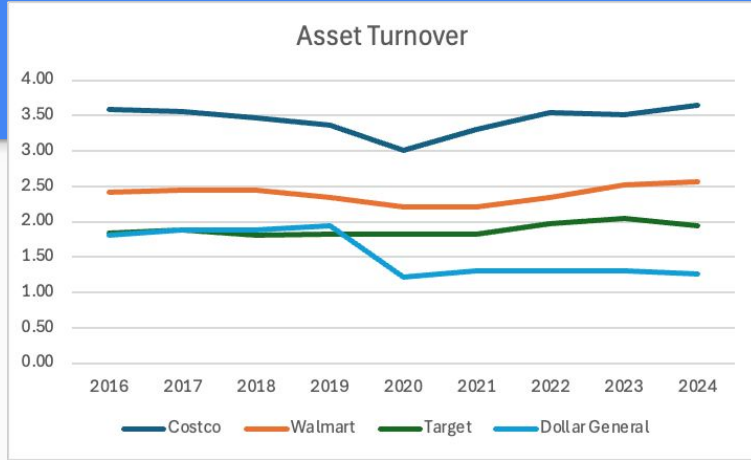
Profitability Ratios



- Low profit margin by design
 - Increasing ROA and ROE
- Costco profits through volume

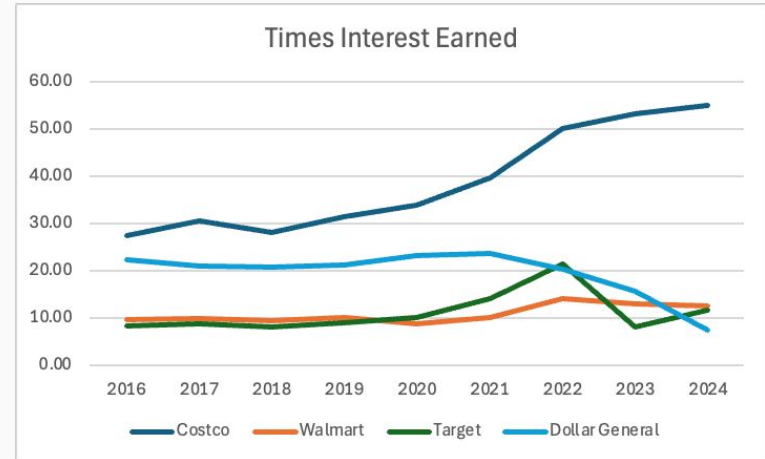
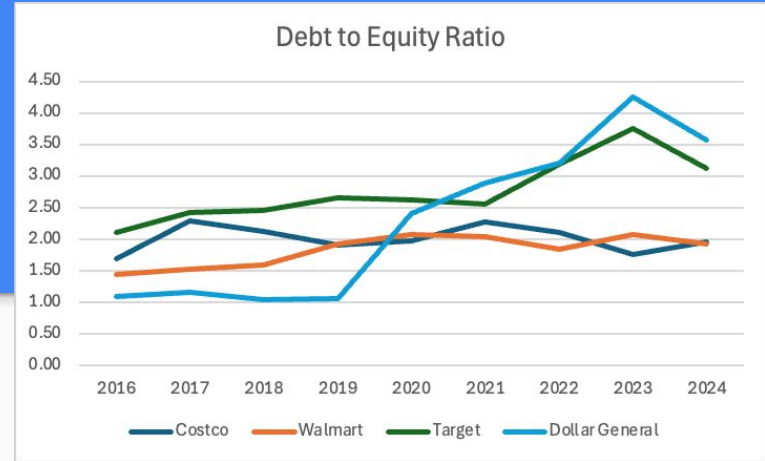
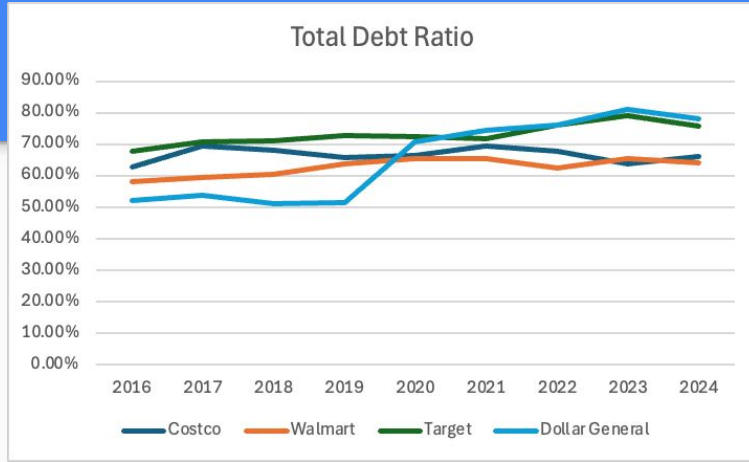


Efficiency Ratios



- High inventory turnover
 - High asset turnover
- Costco has strong efficiency

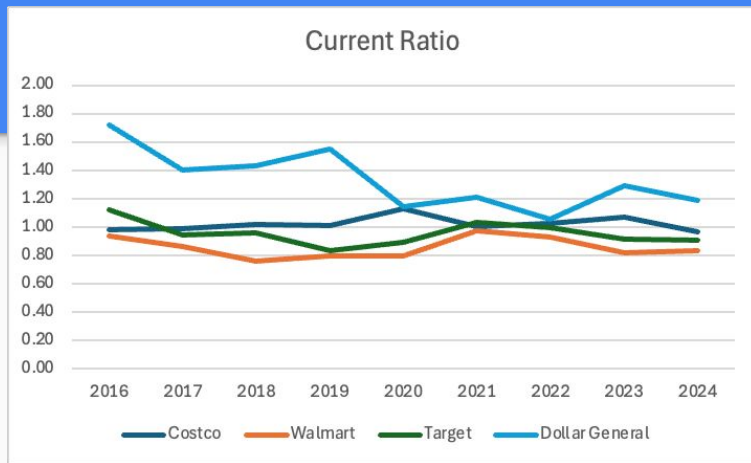
Leverage Ratios



- Lower debt ratios
- High TIE ratio

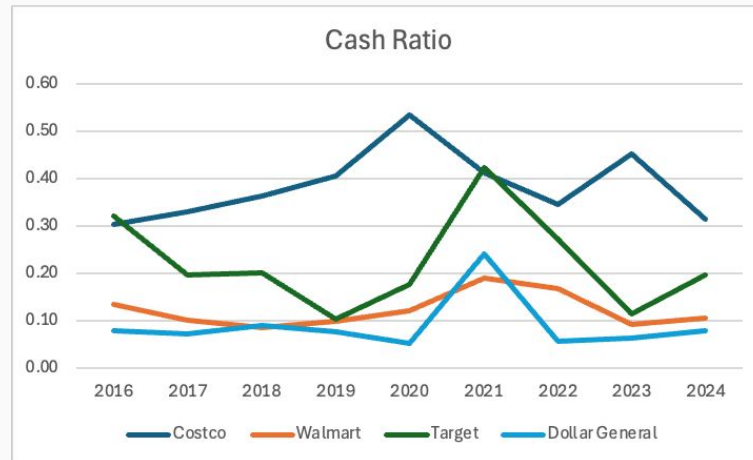
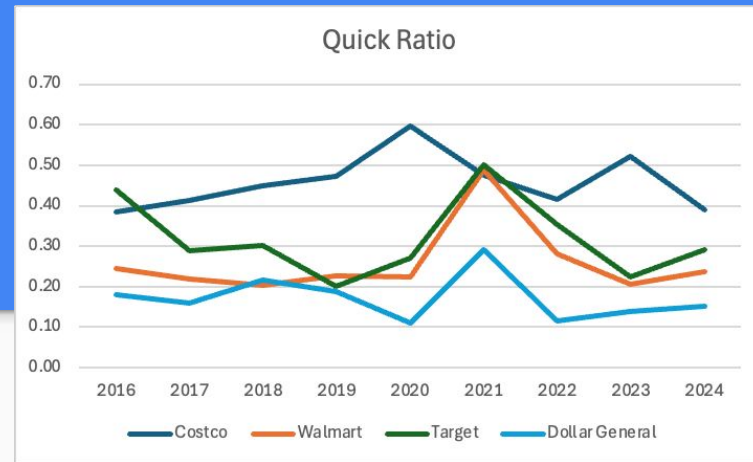
→ Costco relies less on debt

Liquidity Ratios

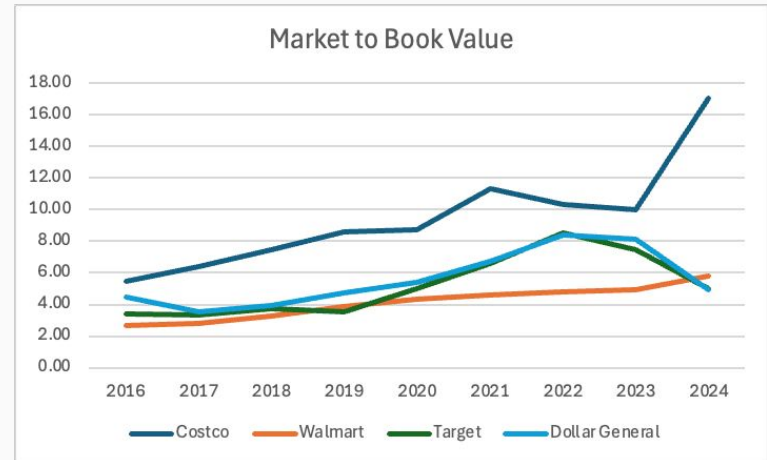
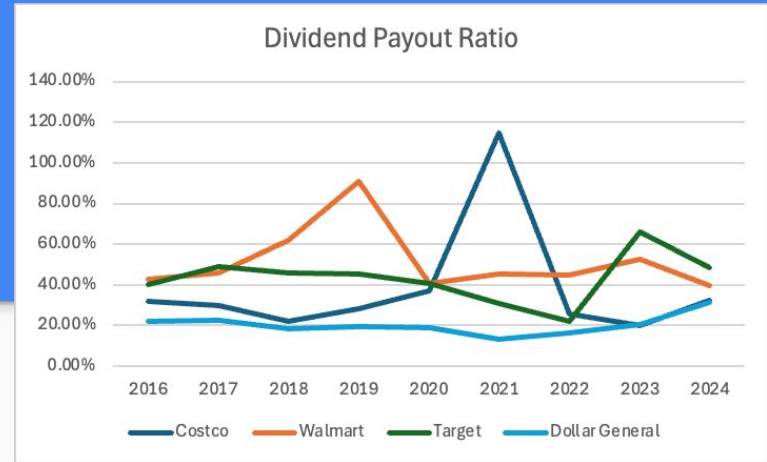
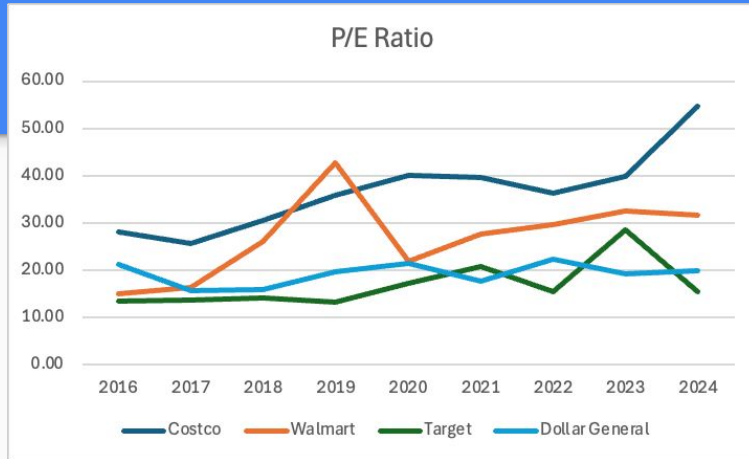


- High quick ratio
- High cash ratio

→ Costco is slightly more liquid



Market Value Ratios



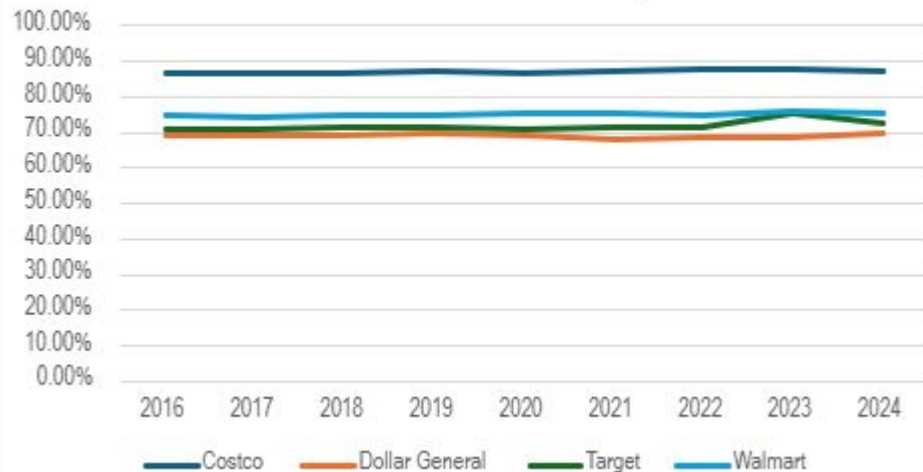
- High P/E ratio
- High M/B ratio

→ Costco is priced at a premium

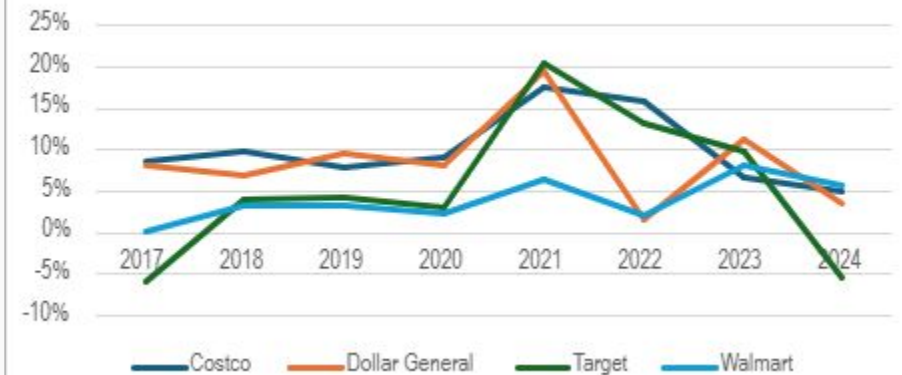
Common-Size & Percentage Change Analysis

Cost of Goods Sold

COGS Common - Size Analysis

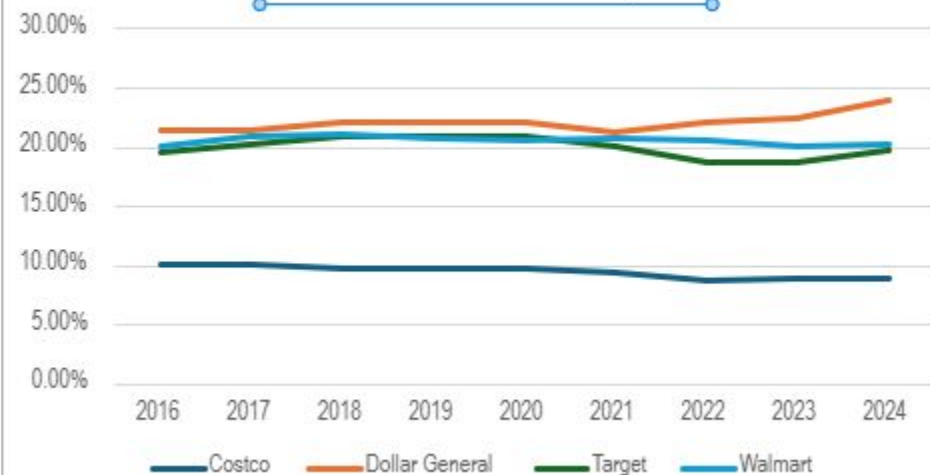


COGS Growth



SG&A

SG&A Common Size Analysis

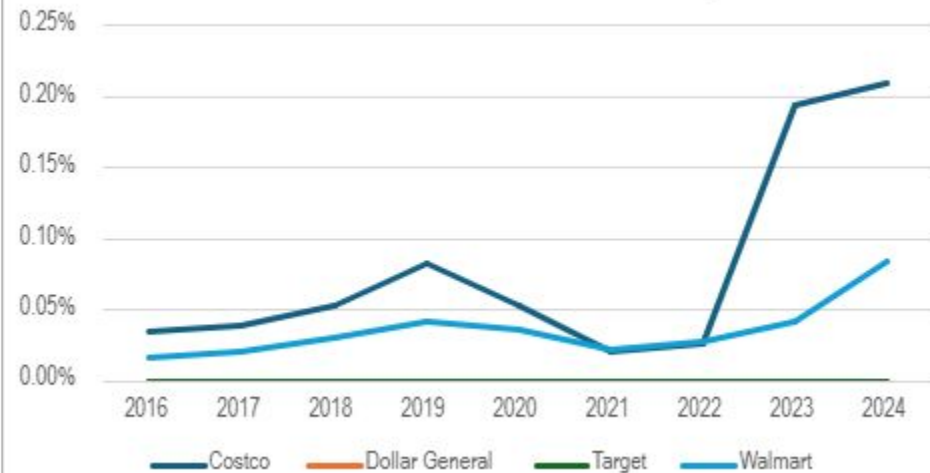


SG&A Growth



Investment and Interest Income

Investment Income Common Size Analysis

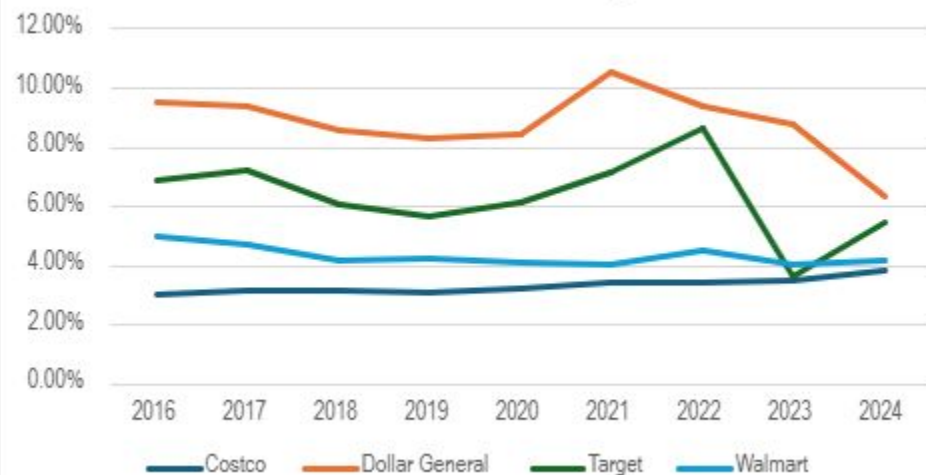


Investment Income Growth

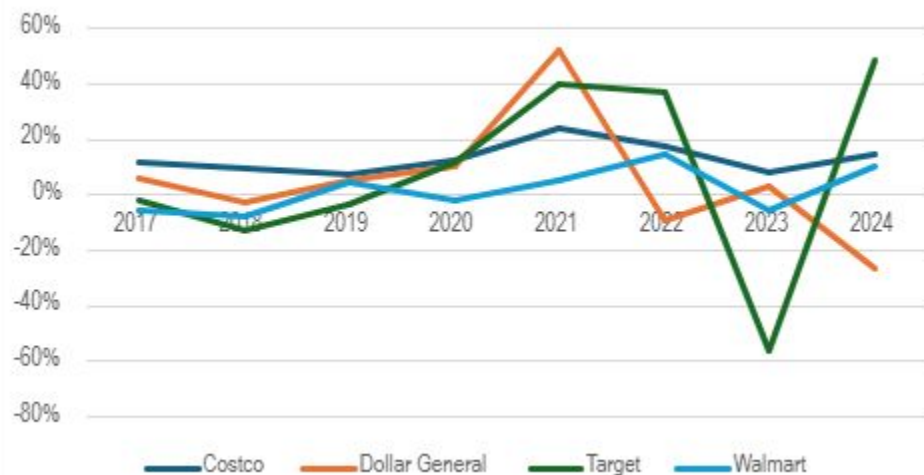


EBIT

EBIT Common Size Analysis

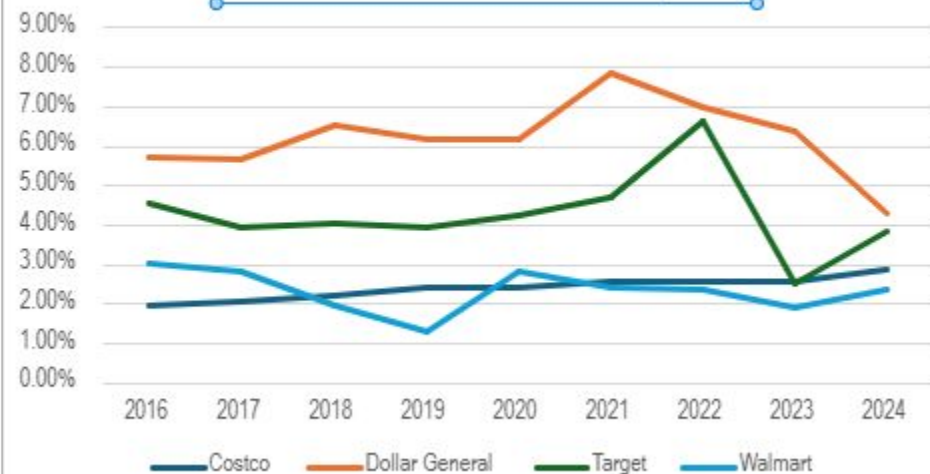


EBIT Growth

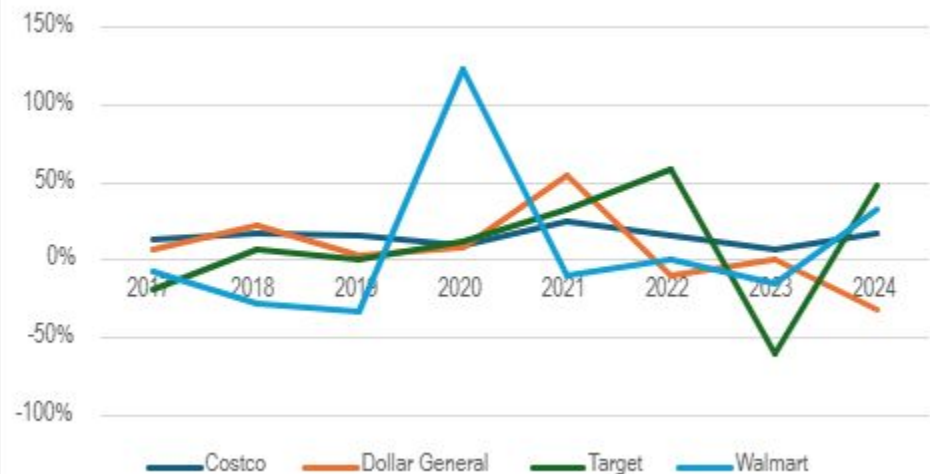


Net Income

Net Income Common Size Analysis

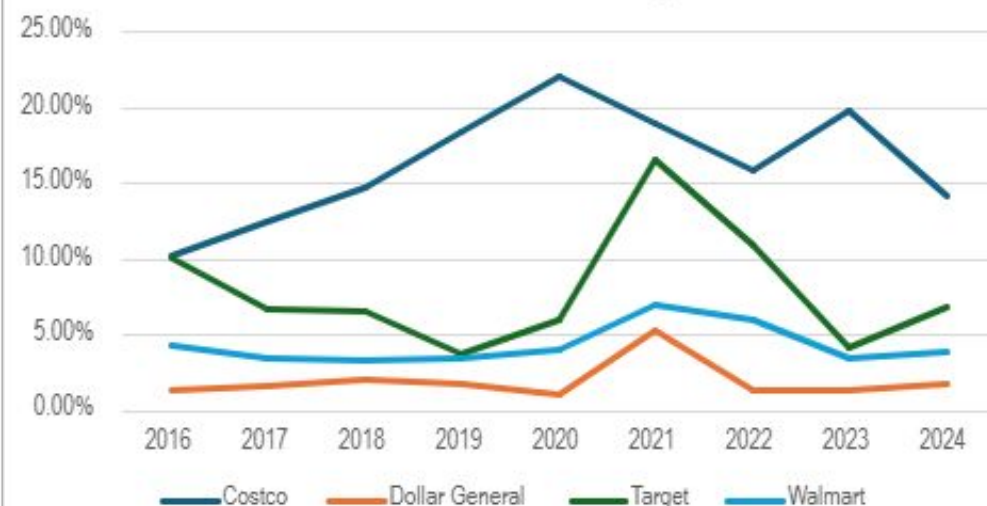


Net Income Growth

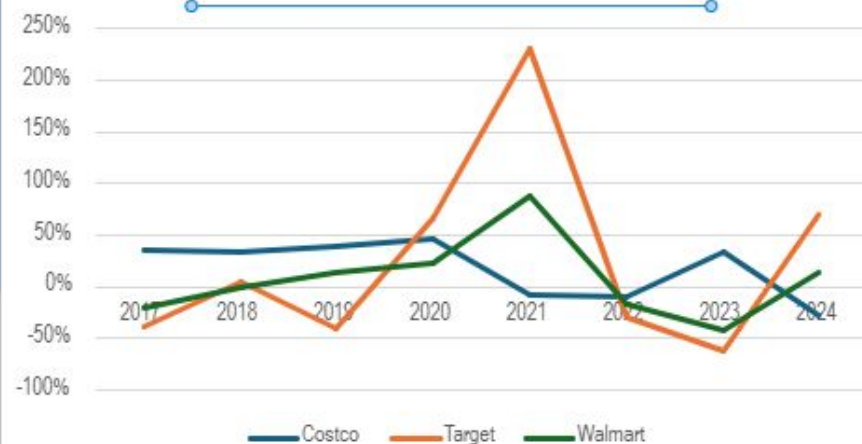


Cash

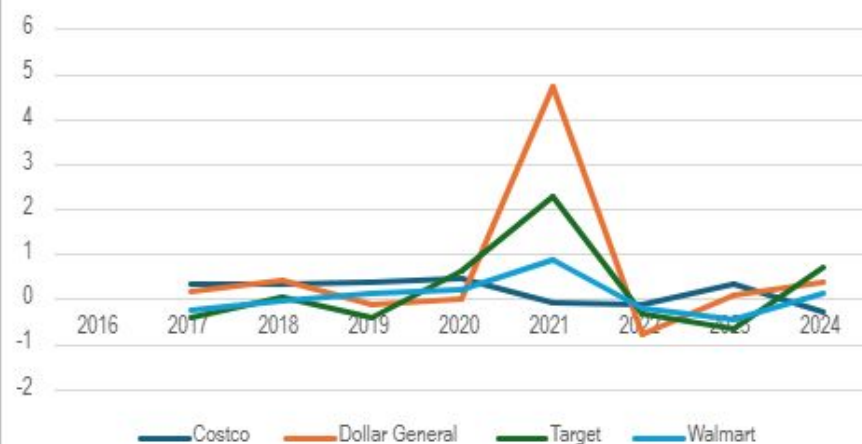
Cash Common Size Analysis



Cash Growth without Dollar General

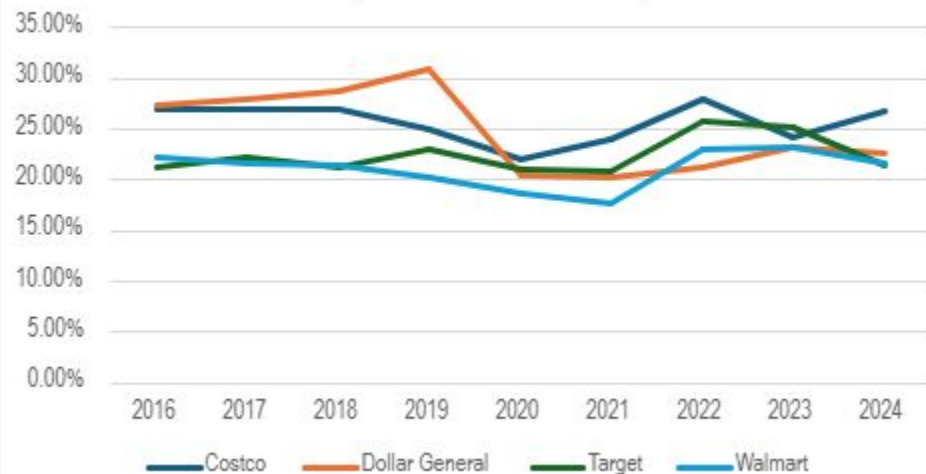


Cash Growth



Inventory

Inventory Common Size Analysis

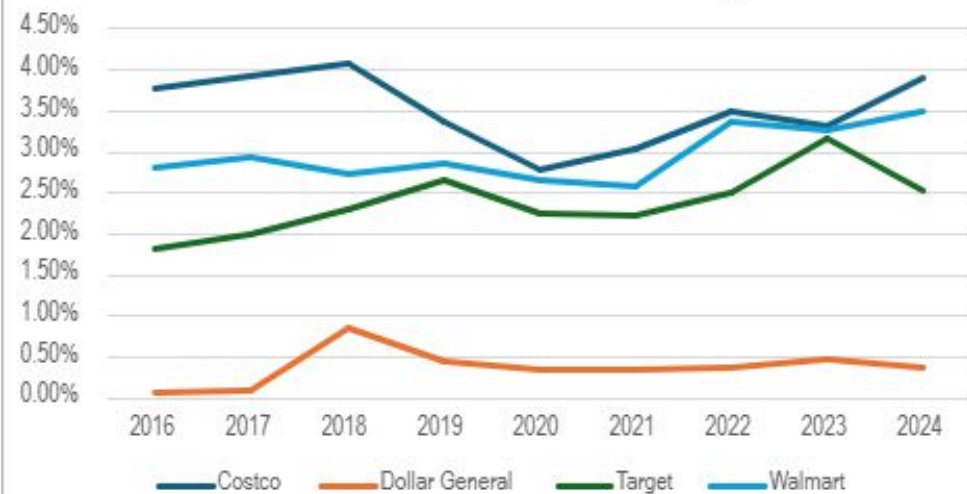


Inventory Growth

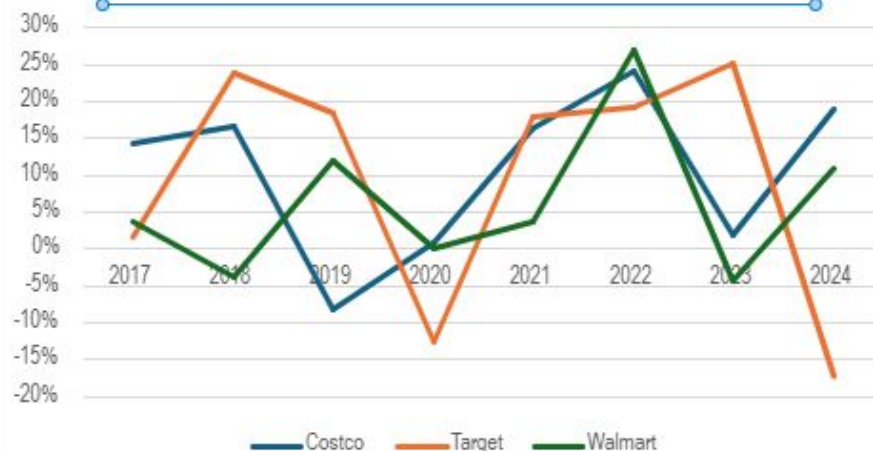


Total Receivables

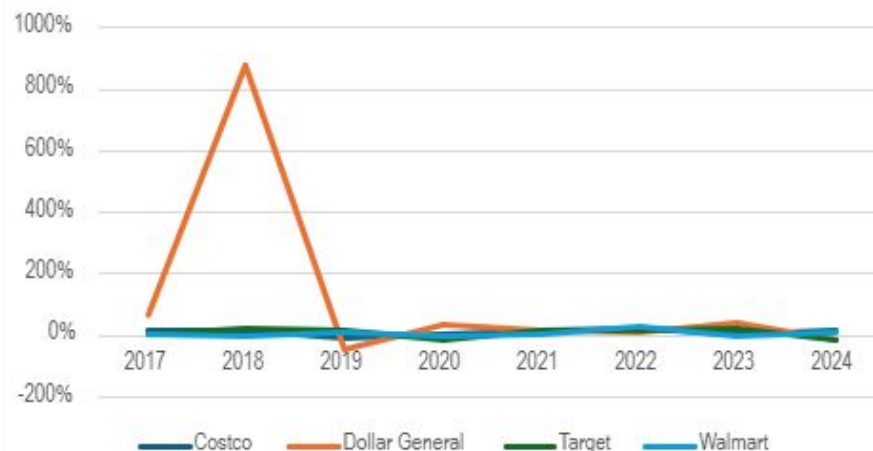
Total Receivables Common Size Analysis



Total Receivables Growth Without Dollar General

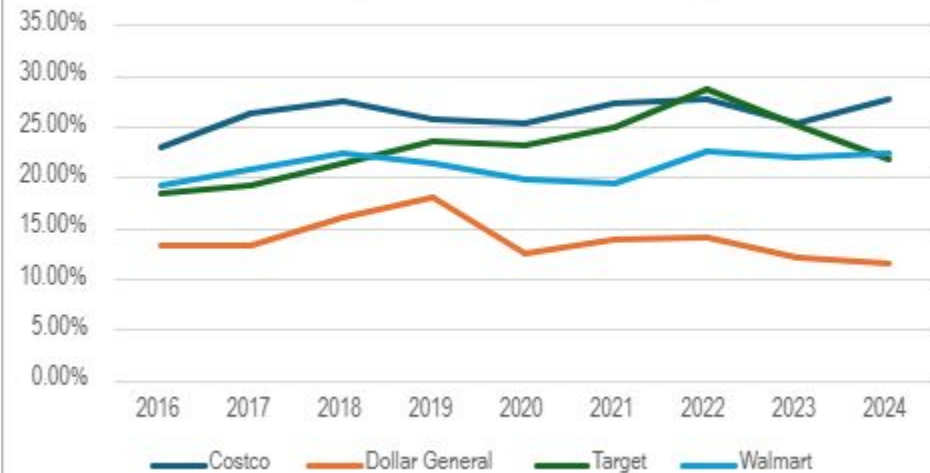


Total Receivables Growth



Accounts Payable

Accounts Payable Common Size Analysis

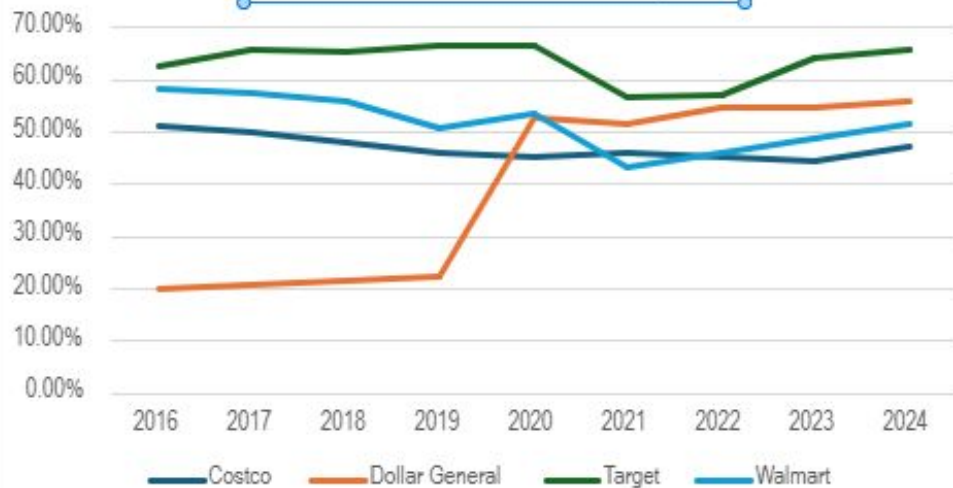


Accounts Payable Growth

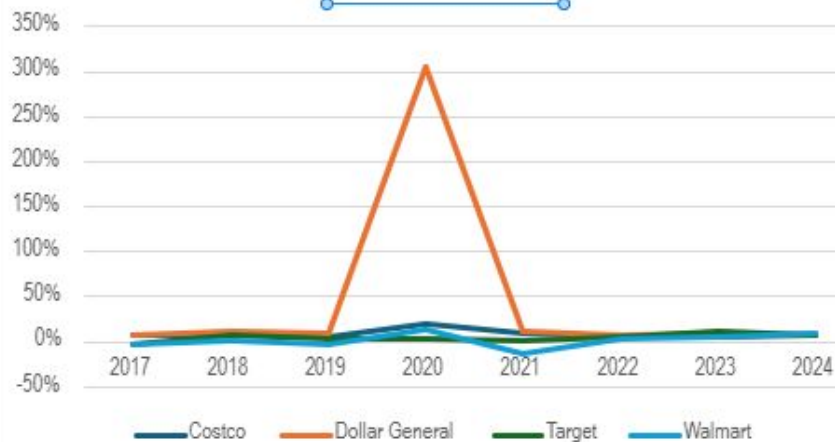


Net PPE

Net PPE Common Size Analysis



Net PPE Growth



Net PPE Growth without Dollar General



Strategies, Strengths, & Weaknesses

Current Strategy

- Membership based model
 - Significant profit driver
 - Incentivizes shopping
- Volume-based low-cost retailer
 - Markups capped at 14%
 - Low margins
- Limited SKU strategy
- Supplier relationships
- Member trust
- Appeal to higher-income demographics
 - Wine, Jewelry

Strengths

- Strong ROE and ROA
- Operational efficiency
 - Small selection of goods
 - High inventory and asset turnover
- Lower reliance on debt
- High cash reserves and interest coverage
 - Lower financial risk
- Membership model
 - Trust and loyalty

Weaknesses

- Thin profit margins
 - Vulnerable to price changes
- Limited pricing flexibility
- Dependence on volume
- Potential overvaluation
 - Current stock price of \$998.80
 - Intrinsic value of \$563.73 (Alpha Spread)

Industry Challenges & Recommendations



Industry Challenges

- Inflationary Pressures
- “Shrinkflation”
- E-commerce vs. Brick & Mortar Strategy
 - Core/Intended consumer base
 - Consumer quality testing
- Consumer Credit and Financing Options
 - Subscription/membership saturation
- Management Turnover

Recommendations

- Expand non-merchandise services + Intentional International Expansion
- Long Term Partnerships
 - Strategic Pricing
 - B2B Pricing
- AI driven membership personalization
 - Personalized Promotions
 - Inventory turnover

Competitor Perspective



How Competitors Can Beat CostCo

Price Flexibility

- Costco has very restrictive price flexibility, being able to be price flexible allows for there to be changes in supply and demand; allows there to be more competition in a market that is dominated by CostCo

Variety

- Costco has a small selection of foods, having a broader product range and more selections per product would increase customer satisfaction

Loyalty Programs

How Competitors Can Beat CostCo

Pharmacy

- CostCo has an underdeveloped pharmacy compared to Sam's Club. Sam's Club offers special deal and lower prices to Sam's Club members I would suggest continuing to build on that

Resources

- <https://www.alphaspread.com/security/nasdaq/cost/summary>
- <https://fiveable.me/key-terms/principles-econ/price-flexibility>