

June 30, 2022

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Return on Investment

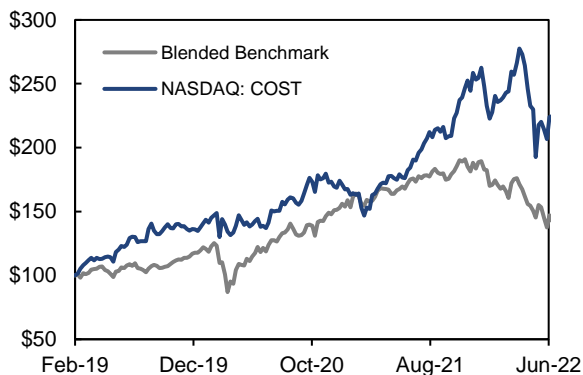
Current Share Price	\$489.92
Target Price	\$620.00
Dividend Yield	0.70%
Holding Period Return	27%
Conviction Rating	3

Market Profile

52-Week Range	\$404.70 - \$612.27
Market Capitalization (US\$mm)	\$216,025
Net Debt (US\$mm)	(\$2,795)
Enterprise Value (US\$mm)	\$213,230
Beta (5-Year Monthly)	0.65

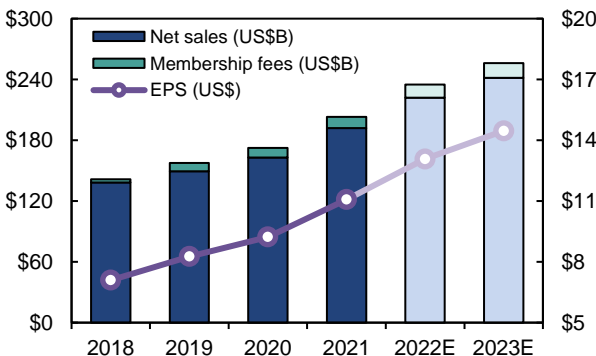
Metrics	2022E	2023E	2024E
Revenue (US\$mm)	\$226,220	\$246,127	\$257,612
EBITDA (US\$mm)	\$9,863	\$11,048	\$12,367
EPS	\$13.08	\$14.47	\$16.31
EV/EBITDA	21.6x	19.3x	17.2x

Holding Period Trading Performance (Indexed to \$100)



Source: S&P Capital IQ

Figure 1: LHS Segmented Revenue vs RHS EPS



Source: Company Filings, CPMT Estimates

Business Description

Costco Wholesale (NASDAQ: COST) operates an international retail chain of 830 membership warehouses across 12 countries and is headquartered in Issaquah, Washington. COST provides competitively priced wholesale goods, many of which are under its signature Kirkland brand. COST also offers a wide range of home and business services, including insurance, telecommunications, storage, payroll, and travel. It remains a cost leader primarily by reducing its operational workload to transfer its savings to its members. It achieves this through its high inventory turnover, ordering fewer higher-quality items in bulk, purchasing directly from manufacturers, and saving on display costs by selling items directly off shipping pallets. As reported on COST's 2021 annual financials, U.S. Operations represent 72% of total revenue; Canadian Operations, 14%; and Other International Operations, 14%.

Industry Overview

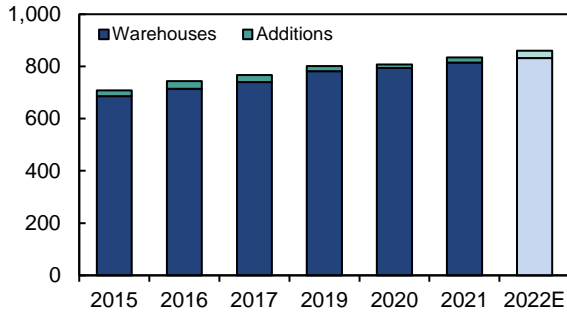
COST operates in a highly competitive environment in terms of price and quality. Factors like distribution strategy, convenience, and customer service determine success in the Company's industry. Customer utilization of online purchasing options has increased significantly after the COVID-19 pandemic. The percentage of customers that never used online options fell ~43% from Fall 2020 to Spring 2022. Although COST grocery pick-up options, the Company benefits considerably from its membership structure. The Company's structure enables customer retention and a consistent increase of ~3% in membership fee revenues. In the retail and warehouse industry, COST's direct competitors include Walmart's Sam's Club (NYSE: WMT), BJ's Wholesale Club (NYSE: BJ), Target (NYSE: TGT), Kroger (NYSE: KR), and Amazon (NASDAQ: AMZN).

Mandate Fit

Quality Management: CEO Craig Jelinek is a primary contributor to the success of COST, successfully guiding the Company through several economic cycles since taking the role in 2012. From FY2018 to Q1 2022 Jelinek has grown COST's revenue and EBITDA by 54% and 70%, respectively. Over the same 5-year period, Jelinek simultaneously increased shareholder returns by 74% from US\$1.2B to US\$2.1B with the Company ending Q1 2022 with a favorable net cash position to further increase returns.

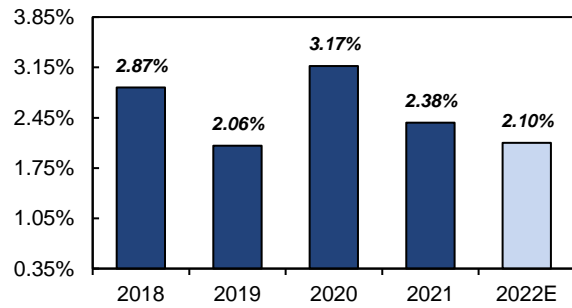
Competitive Advantage: COST's intentional low-margin operating model is superior to peers as it results in higher quality memberships for consumers through lower prices on higher quality items and lower employee turnover rates (6% after one year versus ~40% industry average). Its 90% membership renewal rate as of Q3 2022 evidences its excellent value proposition, which is especially advantageous in the current high-inflation environment as customers limit spending. With the average customer spending ~US\$100 per visit, they are able to breakeven on their membership in just 6 visits. COST's competitive benefits are representative within its net promoter score (NPS) relative to the grocery industry. The Company has the highest NPS of 79 compared to its industry at 24. Looking forward, there stands a risk of other cost-leaders undercutting COST, evidenced by the introduction of AMZN's physical stores.

Figure 2: Warehouses & Additions



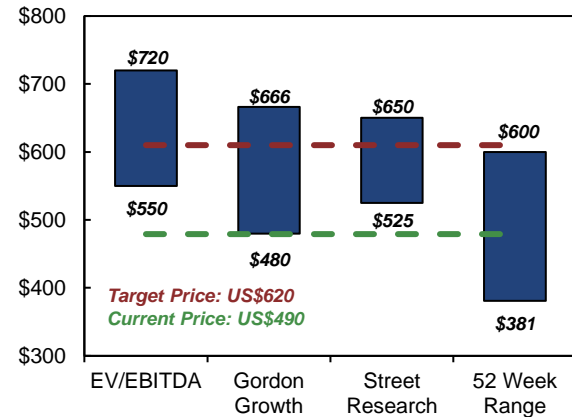
Source: Company Filings, S&P Capital IQ

Figure 3: Free Cash Flow Yield



Source: S&P Capital IQ

Figure 4: Valuation Football Field (US\$)



Source: CPMT Estimates, S&P Capital IQ, Street Research

Figure 5: Peer Group Overview Table

Company Name	Ticker	Price 30-Jun-22	Mkt Cap (US\$B)	Net Debt (US\$B)	EV/ EBITDA	Net Debt/ EBITDA	EBITDA 2Y CAGR	Basic EPS (US\$)	Total Payout ¹
Walmart	NYSE: WMT	\$122	\$333.3	\$56.7	10.5x	1.6x	10.8%	\$4.68	2.6%
Costco Wholesale	NASDAQ: COST	\$489	\$212.3	(\$2.8)	19.8x	(0.3x)	23.5%	\$12.73	1.0%
Target	NYSE: TGT	\$141	\$65.5	\$16.2	7.4x	1.5x	26.9%	\$12.22	3.2%
Loblaw Companies	TSX: L	\$116	\$38.1	\$14.0	9.6x	3.1x	10.5%	\$5.92	4.6%
The Kroger Company	NYSE: KR	\$47	\$33.9	\$19.4	6.6x	2.7x	7.5%	\$2.93	5.5%
Albertsons Companies	NYSE: ACI	\$27	\$14.2	\$11.1	5.0x	2.6x	25.5%	\$2.73	14.5%
BJ's Wholesale Club	NYSE: BJ	\$62	\$8.4	\$3.1	9.8x	3.6x	41.0%	\$3.39	1.3%
Median					9.6x	2.6x	23.5%	\$4.68	3.2%
Mean					9.8x	2.1x	20.8%	\$6.37	4.7%

Source: S&P Capital IQ

(1) Total payout is share repurchases plus dividends as a % of market capitalization.

Strong Balance Sheet: COST has a large cash balance of US\$11.2B and a net cash position of US\$2.8B as of Q3 2022. In addition, COST has a LTM Total Debt/EBITDA of 0.9x while its main competitor WMT's has a multiple of 2.0x and net debt of US\$68.5B. COST's fair value of long-term debt excluding the current position was approximately ~US\$6.5B as of May 8, 2022. Furthermore, the Company's outstanding senior unsecured notes have an A+ credit rating provided by S&P.

Growing Free Cash Flow: COST largely achieves its growing free cash flow through solid membership retention and growth, reaching 90% globally for the first time in the Company's history as of Q3 2022. The Company achieved this rate through penetration of auto-renewals and executive memberships, which now represent ~43% of its entire member base. As a result, COST has steadily grown its free cash flow to consistently increase dividends (~13% CAGR since 2018) and repurchase shares (US\$495mm in FY2021).

Risks

Sanctions relating to the Russia-Ukraine conflict have put significant pressure on U.S. domestic commodity production in the form of insufficient international supply, leading to elevated commodity prices. The resulting increase in transportation and warehouse utility costs have decreased profit margins across the industry. Since the Fund started its position in COST during Q1 2019, membership fees as a percent of EBIT have fallen from ~70% to ~54%. Before the COVID-19 pandemic, on average, COST experienced significant increases in membership fee revenues during Q4 (~35%). In contrast, membership fee revenues in 2020 and 2021 only increased ~3% YoY, showing the Company's inability to capture seasonal demand post-pandemic.

Investment Thesis

The revised valuation for COST returned a US\$620 target price offering a 27% implied return. While COST has done well in the current economic environment, terminal growth and exit multiple assumptions were adjusted to account for the Company's warranted premium over its peers. The terminal value was a 50/50 blend of (1) the Gordon Growth method, using a 2.2% terminal growth rate, and (2) an EV/EBITDA exit multiple of 18x.

The CPMT believes COST's premium valuation is justified by the Company's best-in-class business model and ability to offer resilient performance during the current economic conditions. COST has a loyal customer base and consistent comparable-store sales growth. The Fund will continue to monitor COST's performance and valuation to ensure it continues to fulfill the mandate.