

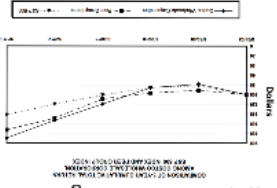
**We believe Costco is a good investment for a number of reasons:**

Acid Test and Asset Turnover ratios-

The acid-test ratio tells whether Costco can pay off all its current liabilities if they came due immediately. Formula: (cash and cash equivalents+short-term investments+ net receivables)/total current liabilities. For example, if Costco had to pay off all they current liabilities now, for every \$1.00, they could only pay .55. Which isn't the best. However, the asset turnover ratio measures how efficiently the business uses its avg total assets to generate sales. Formula: net sales/ average total assets -> 102870/(50283+2710)/2)=58 which is great!! That means that Costco is producing \$5.58 of sales revenue for every \$1 invested in assets.

**For this reason, Costco is a good company to invest in or loan money to because every time they invest \$1 in assets they get \$5.58 in sales revenue!**

**We believe Costco is a good investment for a number of reasons:**



The return on assets ratio is the most important measure of a company's profitability. It is calculated by dividing net income by total assets. Costco's return on assets has improved significantly over the past few years, from 10.5% in 2012 to 14.5% in 2016. This is due to the company's focus on reducing costs and increasing sales. The return on equity ratio is another important measure of profitability. It is calculated by dividing net income by total equity. Costco's return on equity has also improved significantly over the past few years, from 14.5% in 2012 to 18.5% in 2016. This is due to the company's focus on increasing shareholder value.

**For this reason, Costco is a good company to invest in or loan money to because historically for the past 5 years they have had a greater cumulative shareholder return than the average of their peer companies and the S&P 500.**

**Beyond the Bottom Line: Loyalty**

We believe that, through their nontraditional business structure and progressive corporate culture, Costco has achieved the holy grail of retail business models. With over 80% of their profits resulting from their membership structure, they literally make their money of customer loyalty, and as such, their profit is synergistically entwined with the company operating in a manner that truly serves their customer base with the lowest possible prices. This membership aspect also allows Costco to maintain an extraordinary customer retention rate (consistently above 90%) and perpetuates their model of high sales volume and rapid inventory turnover at discount pricing (never over 15% markup). Exceeding conventional social norms in their corporate culture and employee compensation has allowed Costco to have a remarkably low employee turnover rate (consistently less than 4%, 7% for executives), fostering a culture of loyalty that allows for a more competent and efficient workforce (selling 50% more per sq. ft. than Sam's club). Their wide range of sustainable friendly policies that give Costco a strong competitive advantage, they've built systems that invest people, and reward investment. Costco feels like a company that cares more, and that's where they've built their business. Fair and equitable business practices are important, and, in our group, we all agree that they are a factor in any business investment we would make. Combined with Costco's stellar financials, we believe Costco Wholesale Corporation (COST) is an unparalleled investment in the retail space and should be highly regarded as a pillar American Business. Buy

**Costco Facts**

- Costco is a member-owned company, meaning that the company is owned by its members, not by a few large investors.
- Costco has a long history of success, having been founded in 1983 and becoming a public company in 1985.
- Costco is known for its low prices, which are achieved through a combination of factors, including its efficient supply chain and its focus on selling high-quality products.
- Costco has a strong reputation for customer service, and its members are known for their loyalty.
- Costco has a diverse product offering, including groceries, electronics, and home goods.
- Costco has a strong commitment to sustainability and social responsibility.



# Annual Financial Report Analysis

Year ended September 1, 2013

(Historical Financial Data included for context)

[TheCaseSolutions.com](http://TheCaseSolutions.com)

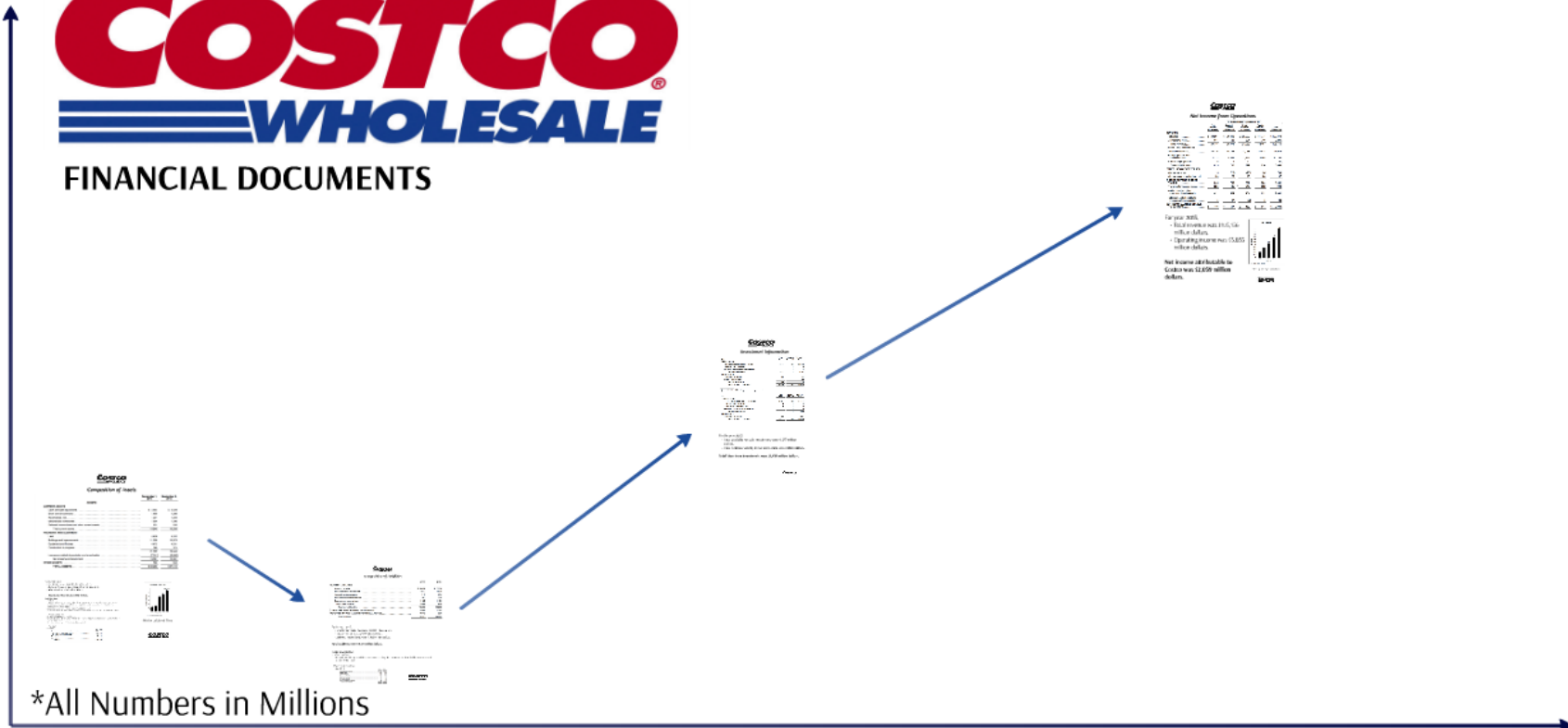


**Costco Wholesale Corporation, and its subsidiaries, operate membership warehouses based on the concept that offering members low prices on a limited selection of nationally branded and select private-label products in a wide range of merchandise categories will produce high sales volumes and rapid inventory turnover.**

# COSTCO

## WHOLESALE

### FINANCIAL DOCUMENTS



\*All Numbers in Millions



## Composition of Assets

|  | September 1,<br>2013    | September 2,<br>2012    |
|--|-------------------------|-------------------------|
| <b>ASSETS</b>  |                         |                         |
| <b>CURRENT ASSETS</b>                                |                         |                         |
| Cash and cash equivalents .....                      | \$ 4,644                | \$ 3,528                |
| Short-term investments .....                         | 1,480                   | 1,326                   |
| Receivables, net .....                               | 1,201                   | 1,026                   |
| Merchandise inventories .....                        | 7,894                   | 7,096                   |
| Deferred income taxes and other current assets ..... | 621                     | 550                     |
| Total current assets .....                           | <u>15,840</u>           | <u>13,526</u>           |
| <b>PROPERTY AND EQUIPMENT</b>                        |                         |                         |
| Land .....   | 4,409                   | 4,032                   |
| Buildings and improvements .....                     | 11,556                  | 10,879                  |
| Equipment and fixtures .....                         | 4,472                   | 4,261                   |
| Construction in progress .....                       | 585                     | 374                     |
|  | <u>21,022</u>           | <u>19,546</u>           |
| Less accumulated depreciation and amortization ..... | (7,141)                 | (6,585)                 |
| Net property and equipment .....                     | <u>13,881</u>           | <u>12,961</u>           |
| <b>OTHER ASSETS</b> .....                            | <u>562</u>              | <u>653</u>              |
| <b>TOTAL ASSETS</b> .....                            | <u><u>\$ 30,283</u></u> | <u><u>\$ 27,140</u></u> |

For the year 2013,

- Total current assets were \$15,840 million dollars.
- Net property and equipment were \$13,881 million dollars.
- Other assets were \$562 million dollars.

**Total Assets Were \$30,283 million dollars.**

**Insight into Assets**

*-Current-*

- Cash and Cash equivalents are all highly liquid with a maturity of three months or less at the date of purchase.
- Short term investments have a maturity date of 3 months to 5 years. The majority are of the short term investments are in debt securities.
- Receivables are recorded net of an allowance for doubtful accounts.
- Merchandise Inventories are recorded using the LIFO method for substantially all U.S. merchandise inventories.

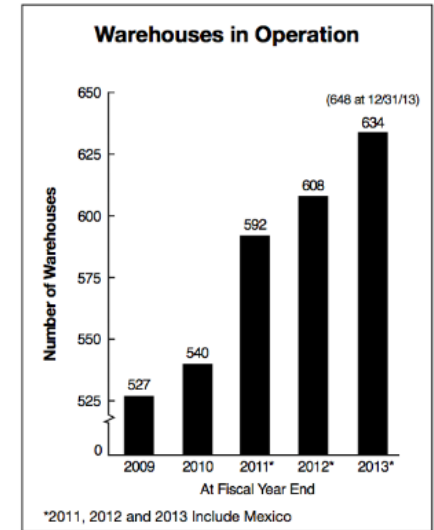
*-Property and Equipment-*

- Property and Equipment are stated at cost.
- Depreciation and amortization expense is computed using the straight-line method over estimated useful lives or the lease term, if shorter.
- Repair and maintenance costs are expensed when incurred.

*-Other Assets-*

- Consist of:

|  | <u>2013</u>          | <u>2012</u>          |
|--|----------------------|----------------------|
| Prepaid rents, lease costs, and long-term deposits ..... | \$ 236               | \$ 230               |
| Receivables from governmental entities .....             | 128                  | 225                  |
| Cash surrender value of life insurance .....             | 74                   | 76                   |
| Goodwill, net .....                                      | 63                   | 66                   |
| Other .....  | 61                   | 56                   |
| <b>Other Assets .....</b>                                | <b><u>\$ 562</u></b> | <b><u>\$ 653</u></b> |



\*Historical Asset Data

